Hingham Institution for Savings

Strong Roots. Organic Growth. Abundant Returns.

Annual Report 2010

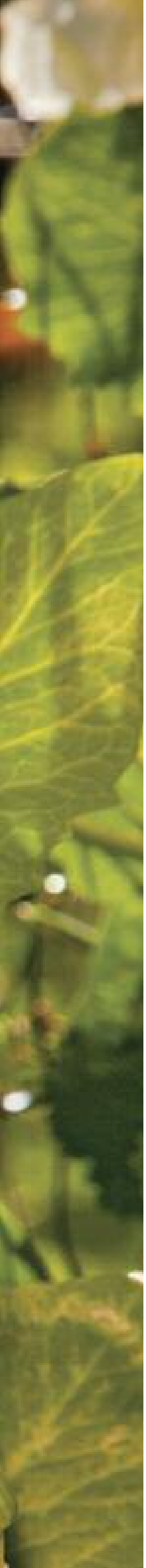
The upheaval in our marketplace these past few years created a new competitive landscape and wonderful opportunity for us. Our record growth has not come from mergers or acquisitions. Instead, it is the everyday nurturing of our strong customer relationships and a philosophy of organic growth that are at the root of our success.

Wall Street and the Big Banks have fallen out of favor. Main Street has been rediscovered, and there is a new thirst for all things local. People are seeking authenticity and simplicity, in their food, the products they buy, and their banking services. They want to know the ingredients and the origin, and they want to see the fine print. Our deep roots and sterling reputation within our communities have yielded a bumper crop of new business.

Our customers value us because we value them. They see that at Hingham Savings, service comes first. We don't try to be everything to all people. We know our customers well. From our teller line to our boardroom, our focus is on simple products and exceptional service. We have been rewarded with loyal, long-term customer relationships, and word-of-mouth referrals from people who trust us.

We have a friendly and stable workplace culture, with staff that have been with us for decades. Our low staff turnover has yielded expertise and operating efficiency that allow us to do twice as much with half as many people. Our management is local, guided by sound judgment and simple, proven ideas. We are fortunate to have long term commitments, effective business processes, and excellent performance ratings.

For 176 years we have grown organically and intentionally, without the need for outside help. Our philosophy has yielded an abundance of rewards, with tremendous deposit and loan growth, increased market share on all fronts and growing recognition as a premier bank and industry leader.



From the President

Dear Shareholders:

This past year was the most successful in the 176-year history of the Bank. We're excited to report record earnings of $10,228,000, representing a 27% increase over the prior year. We also reached a major milestone in 2010 by exceeding one billion dollars in total assets. Our strong performance is the product of hard work and consistent focus on healthy growth. It is also a tribute to our stability and trusted status within the communities we serve.

In 2010, deposits increased by $98.9 million, or 16% over year-end 2009. Net loans increased by 10% and total assets increased by 10%. Net income for the year ended December 31, 2010 was a record $10,228,000 or $4.81 per share (basic and diluted), as compared to $8,045,000 or $3.79 per share (basic and diluted) in 2009. Total assets as of December 31, 2010 were $1,017,845,000, as compared to $925,560,000 at December 31, 2009. Non-performing assets totaled 0.91% of total assets and were down from 1.36% at December 31, 2009

Stockholders' equity increased from $65,293,000 at December 31, 2009 to $72,736,000 at December 31, 2010. Book value per share increased from $30.74 to $34.24. Our Return on Equity increased to 14.67%, again one of the highest among all publicly traded banks in Massachusetts.

This performance allowed us to reward our stockholders by increasing the cash dividends declared per share for the 16th consecutive year.

We have growing recognition for our market leadership on both national and local fronts. This year, SNL Financial rated us the #1 Thrift in the East, and #2 in the Nation, citing us as a "regular fixture" at the very top of the performance rankings. Boston Business Journal has referred to us as "one of the most profitable banks in the country." We are both honored and excited to live up to such accolades.

We find that customers are increasingly drawn to our local commitment. Our time-tested strategies of organic growth, careful scrutiny of asset quality and effective cost controls have produced abundant returns. As we complete the building expansion of our headquarters in Hingham Square, we are also growing our presence in Boston's Back Bay/Beacon Hill neighborhood, where we will open a new branch this summer. We are excited about the opportunities that 2011 will bring.

I am most grateful to all those people responsible for our tremendous growth. Our Board of Directors and Officers bring strong leadership, integrity, and a deep respect for community to every business decision. Our core values demand transparency in our business practices, and an operating expertise that allows us to do more with less. I am thankful to our dedicated staff, who demonstrate standards of excellence in all they do, every day.

Together, with the continued support of customers and shareholders, we will take full advantage of the many opportunities awaiting us.

Very truly yours,

Robert H. Gaughen, Jr.
President and Chief Executive Officer

Tony Tierno,
AVP, Boston Branch Manager

We see Sean often at our South End branch, and it is refreshing to work with someone who brings such business savvy to his craft. We are proud he has chosen Hingham Savings for both business and personal banking.

Building Upon Client Service

Sean Kennedy grew up around his father's successful contracting company on the South Shore. He hadn't intended to get into the building business himself, and instead studied economics at Tufts. However, he soon realized the opportunity in this industry for those who make client service and communication a key element in the project process. He created Kennedy Design Build, and with his father Jim working alongside him, has completed several high-end renovation projects in the area which have far exceeded client expectations.

As he shows us around his current project, a luxury residence on 3 levels in the South End, we take in the coffered ceilings, arched passageways and custom stonework. The craftsmanship is breathtaking, and it is clear to see why Kennedy Design Build is one of the fastest growing contractors in the area. They know that Hingham Savings shares their high standards for customer service and appreciate our flexible commercial loan products, solid business banking, and convenient South End location.

Alex Boyd,
VP, Commercial Lending Officer

We have a unique ability to collaborate with our clients. We have the flexibility to meet aggressive timelines and provide timely project support to a market that we fully understand.

A Welcome Respite

At the elbow of Cape Cod, steps from historic Chatham Village, is the former home of Sea Captain Moses Nickerson. When partners Brian Dougherty and Nick Robert came to us with their proposal to bring the 1839 inn back to life, we were impressed with Brian's strong background in the hospitality business and Nick's credentials in interior design. We knew their business venture made good sense, and were pleased to welcome them as new commercial loan customers.

The Chatham Gables Inn opened for business in early summer, and word has traveled fast. Guests rave about the refined décor and luxury linens, gourmet food and meticulous care. Yet, it's the warm welcome and 5-star attention of Brian and Nick which are the strongest amenity, whether advising on a daily excursion from the inn's "map room" or personally ironing a guest's shirt. We are proud to have customers who share Hingham Savings' standards for efficiency and anticipation of customers' every need. As portfolio lenders, we are flexible and we know our market well. We're able to provide loan offerings that bring value to everyone.

Family Dinner at Its Finest

Nothing gets past Captain Ed O'Brien. From his chair at the entrance of Jake's Seafood Restaurant in Hull, he will see to it that you're properly seated and served some of the best fresh seafood around.

Back in 1949, the menu was simple fare; clams dug from the tidal flats and locally trapped lobsters, served on paper plates. Jake's Restaurant now has 80 employees and is a regular provider of college scholarships to the Hull community. Ed and his wife Barbara are parents of seven, and they measure the evolution of their restaurant in terms of family milestones; the kitchen conversion, building additions, new services and menu offerings are each mentioned in tandem with family births, graduations, and marriages.

Family dinner is alive and well here, and there are many O'Briens involved in the daily activities of the restaurant. The connection to the business and each other is based on their values for quality and hard work. They brought their accounts to Hingham Savings because they prefer doing business with a strong community bank that shares their values. They were also impressed with the service they received from Branch Manager Jinnie Ryan Walsh. We are proud to have earned their business.

Jinnie Ryan Walsh,
AVP, Hull Branch Manager

I am glad for the opportunity to bring our signature "above and beyond" service level to our relationship with Jake's Restaurant.

The Power of Shared Story

From the 3rd floor billiard room and stunning views to the antique wine cellar, the updates made to the McLennan's seaside Victorian have brought new life to every room. A silent group of monks greets visitors in the foyer. The sculpture is one of many collected treasures that tell a special story of Bill and Diane's world travels. Tibetan Buddha heads, a wooden pillow used by Chinese royalty, an intricately carved table; each cherished piece holds a history and life experience that the McLennans delight in sharing with us.

It was a word-of-mouth recommendation from local custom builder David Blauss that brought the McLennans to Hingham Savings for their construction financing. Many of our longest and most loyal banking relationships have begun with simple referrals, by those who consider us a trusted resource. We have a solid reputation for construction loans that are fairly priced and locally serviced. The McLennans have been pleased with our friendly and helpful staff who worked closely with them throughout their renovation process. We are honored to be a part of the story of their new home.

Joan Reydel,
AVP, Residential Lending Officer

We take pride in working personally with each of our customers throughout the life of their home loan, and it has been especially rewarding to serve as a resource for Diane and Bill during their renovation project.

Denise Quirk,
AVP and Norwell Branch Manager

It is always a pleasure doing business with Norwell Farms and I know they appreciate our customer service. Visiting the farm is like going back in time, and I am hopeful this project will serve as a model for other communities.

Fostering a Healthy Reconnection

Everything old is new again at the historic Jacobs Farm Homestead in Norwell. The adjoining field is now a working farm project, whose mission is to reconnect the community to the benefits of local, sustainably grown food. With seed money provided by Norwell's Community Preservation Committee, the daily working of the non-profit farm is funded by committed shareholders. Members look forward to freshly picked bundles of seasonal vegetables each week, and to swap a recipe or two with friends. Popular events, such as an "Heirloom Tomato Tasting" and a "Menu for the Future" educational forum, ensure there is broad opportunity for participation.

Their first growing season has been bountiful. In spite of near-drought conditions, they have harvested 16,240 pounds of fresh vegetables, and logged nearly 800 hours of enthusiastic volunteer time. Come spring, they will plow ahead, and double their plantings. We applaud their commitment and are proud to support Norwell Farms in its plans for bringing local food to the community. The Bank's reputation for personal service and convenient location at Assinippi Corner have made Norwell Farm's decision to do their business banking with us a natural fit, and we are pleased they have chosen to grow with us.

Photograph by Jessica Chase

Senior Officers

Robert H. Gaughen, Jr.
President
and Chief Executive Officer

Robert A. Bogart
Vice President
and Treasurer

William M. Donovan Jr.
Vice President
Administration

William G. Bowers, Jr.
Vice President
Commercial Lending

Alexander L. Boyd
Vice President
Commercial Lending

Thomas I. Chew
Vice President
Branch Operations

Shawn T. Sullivan
Vice President
Commercial Lending

Peter R. Smollett
Vice President
Commercial Lending

Michael J. Sinclair
Vice President
Retail Lending

Board of Directors


Howard M. Berger, Esq.


Michael J. Desmond


Marion J. Fahey


Ronald D. Falcione


Kevin W. Gaughen, Esq.


Robert H. Gaughen, Jr., Esq.


Julio R. Hernando, Esq.


Robert A. Lane, Esq.


Scott L. Moser


Warren B. Noble


Stacey M. Page


Joseph A. Ribaudo, CPA


Edward L. Sparda

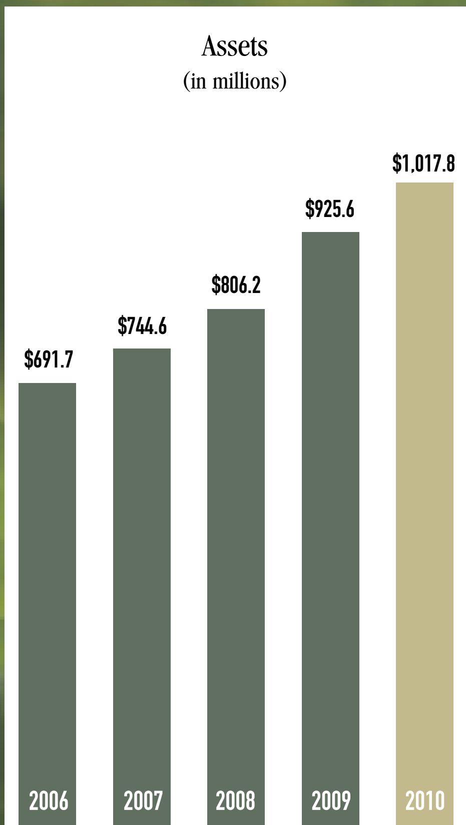

Donald M. Tardiff M.D.

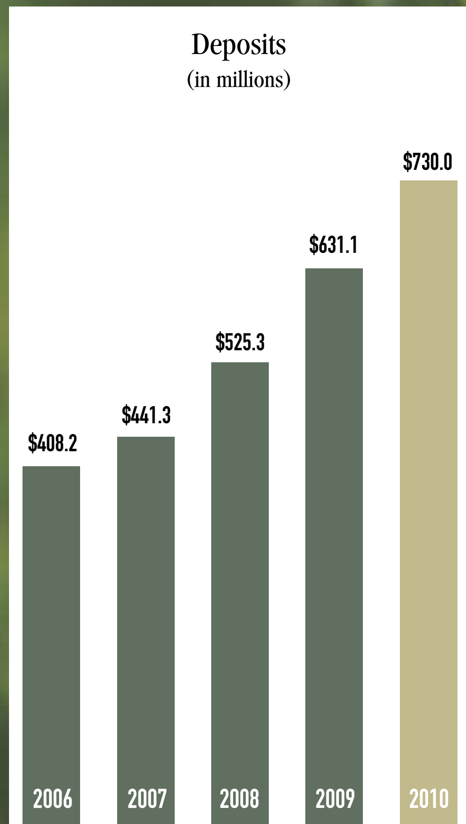

James R. White

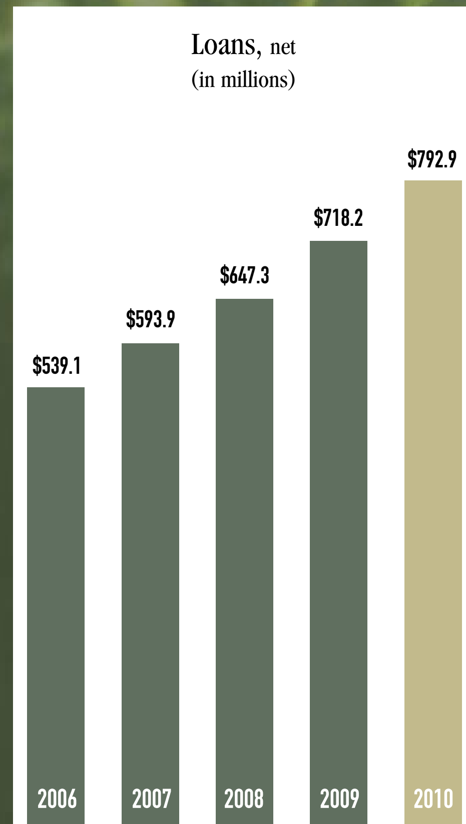

Geoffrey C. Wilkinson, Sr.

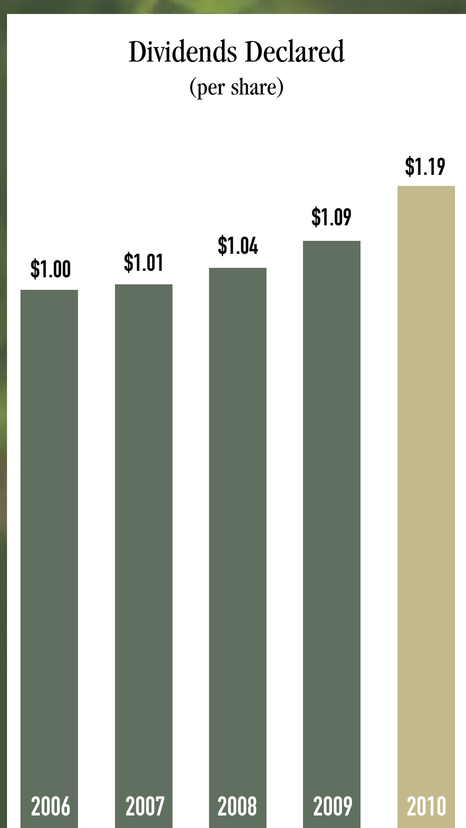

Jacqueline M. Youngworth

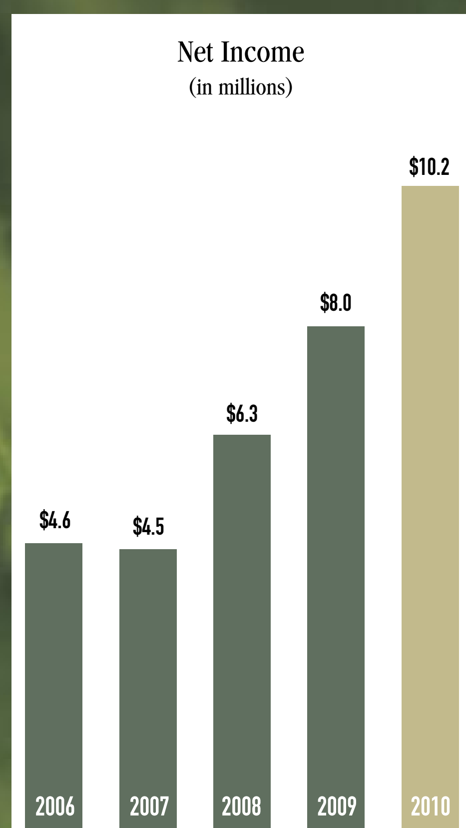
Financial Highlights











SELECTED CONSOLIDATED FINANCIAL DATA

The following information does not purport to be complete and is qualified in its entirety by the more detailed information contained elsewhere herein.

	At December 31,				
	2010	2009	2008	2007	2006
			(In Thousands)		
Balance Sheet Data:					
Total assets	$ 1,017,845	$ 925,560	$ 806,193	$ 744,602	$ 691,652
Securities available for sale	95,071	96,374	87,380	77,432	94,732
Loans:					
Residential mortgage	385,524	350,433	299,866	273,323	254,073
Commercial mortgage	383,361	348,700	317,162	299,739	267,917
Construction	29,065	23,228	33,315	23,464	19,426
Other	958	833	799	755	811
Allowance for loan losses	6,905	5,737	4,530	3,925	3,603
Deposits	729,960	631,087	525,334	441.275	408,190
Federal Home Loan Bank advances	207,580	222,636	214,994	243,738	227,576
Stockholder's equity	72,736	65,293	59,825	54,771	51,818

	Years Ended December 31,				
	2010	2009	2008	2007	2006
	(Dollars in Thousands, Except Per Share Amounts)				
Income Statement Data:					
Total interest and dividend income	$ 46,825	$ 44,798	$ 43,309	$ 42,101	$ 37,089
Total interest expense	15,098	17,599	21,980	26,073	21,212
Net interest income	31,727	27,199	21,329	16,028	15,877
Provision for loan losses	1,300	1,700	805	322	287
Other income	1,627	2,008	1,664	1,708	1,693
Operating expenses	14,978	14,371	12,123	10,587	10,116
Income before income taxes	17,076	13,136	10,065	6,827	7,167
Income tax provision	6,848	5,091	3,780	2,337	2,527
Net income	$ 10,228	$ 8,045	$ 6,285	$ 4,490	$ 4,640
Earnings per common share:					
Basic	$ 4.81	$ 3.79	$ 2.96	$ 2.12	$ 2.19
Diluted	$ 4.81	$ 3.79	$ 2.96	$ 2.12	$ 2.19
Financial Ratios:					
Return on average assets	1.05 %	0.93 %	0.81%	0.63 %	0.71 %
Return on average equity	14.67	12.78	11.08	8.40	9.18
Average equity to average assets	7.14	7.26	7.33	7.51	7.72
Interest rate spread	3.20	3.11	2.52	1.87	2.08
Net yield on average earning assets	3.37	3.30	2.86	2.33	2.51
Dividend payout ratio (basic)	24.74	28.76	35.14	47.64	45.66
Efficiency ratio	44.91	49.20	52.72	59.69	57.58
Cash dividends declared per common share	$ 1.19	$ 1.09	$ 1.04	$ 1.01	$ 1.00
Book value per common share	$ 34.24	$ 30.74	$ 28.20	$ 25.85	$ 24.47

The following information should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements contained in this report.

SIGNIFICANT ACCOUNTING POLICIES; CRITICAL EARNINGS ESTIMATES

The Bank's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, or "U.S. GAAP," including prevailing practices within the financial services industry. The preparation of consolidated financial statements requires management to make judgments involving significant estimates and assumptions in the application of certain of its accounting policies about the effects of matters that are inherently uncertain. These estimates and assumptions, which may materially affect the reported amounts of certain assets, liabilities, revenues and expenses, are based on information available as of the date of the consolidated financial statements, and changes in this information over time could materially impact amounts reported in the consolidated financial statements as a result of the use of different estimates and assumptions. Certain accounting policies, by their nature, have a greater reliance on the use of estimates and assumptions and could produce results materially different from those originally reported.

Based on the sensitivity of financial statement amounts to the methods, estimates and assumptions underlying reported amounts, the most significant accounting policy followed by the Bank has been identified by management as the determination of the allowance for loan losses. This policy requires the most subjective or complex judgments and, as such, could be most subject to revision as new information becomes available. An understanding of the judgments, estimates and assumptions underlying this accounting policy is essential in order to understand the Bank's reported financial condition and results of operations. This accounting policy and its application in recent periods is described in more detail in the "Provision for Loan Losses" section of this discussion and analysis and in Notes 1 and 4 to the Consolidated Financial Statements contained in this annual report. If management's assumptions and judgments prove to be incorrect and the allowance for loan losses is inadequate to absorb inherent losses, or if bank regulatory authorities require the Bank to increase the allowance for loan losses as a part of their examination process, the Bank's earnings and capital could be significantly and adversely affected.

RESULTS OF OPERATIONS

COMPARISON OF THE YEARS 2010, 2009 and 2008

For the year-ended December 31, 2010, the Bank earned $10.2 million as compared to $8.0 million in 2009 and $6.3 million in 2008. On a basic and dilutive per-share basis, the Bank earned $4.81 in 2010, $3.79 in 2009 and $2.96 in 2008. Earnings for 2010 as compared to 2009 were impacted by a $4.5 million increase in net interest income and a reduction of $400,000 in the provision for loan losses, offset, in part, by a reduction of $381,000 in other income, a $607,000 increase in operating expenses and a $1.8 million increase in the income tax provision. Earnings for 2009 as compared to 2008 were impacted by a $5.9 million increase in net interest income and a gain of $454,000 from the sale of $25.3 million in fixed-rate residential loans offset, in part, by a $2.2 million increase in operating expenses, an $895,000 increase in the provision for loan losses and a $1.3 million increase in the income tax provision.

Total interest and dividend income increased in 2010 compared to 2009 due to a 14% increase in average interest earning assets offset by a 47 basis point decrease in the average yield on earning assets, reflecting market conditions. Interest expense decreased by 14% due to a 56 basis point decrease in the average rate paid reflecting a combination of market conditions and a shift from borrowed funds to lower cost deposit products offset, in part, by a 13% increase in average interest bearing liabilities. Total interest and dividend income increased in 2009 compared to 2008 due to a 10% increase in average interest earning assets offset by a 36 basis point decrease in the yield on earning assets, reflecting market conditions. Interest expense decreased by 20% due to a 95 basis point decrease in the average rate paid reflecting a combination of market conditions and a shift from borrowed funds to lower cost deposit products offset, in part, by a 13% increase in average interest-bearing liabilities.

Other income decreased in 2010 by $381,000 from 2009 primarily due to gains on the sale of mortgage loans of $454,000 recorded in 2009. This was partially offset by an increase of $36,000 in customer service fees on deposits. During 2009, the Bank sold $25.3 million in fixed-rate consumer mortgages (with servicing retained) as part of a strategy to reduce its long-term interest rate risk. Other income in 2009 compared to 2008 increased by $344,000 primarily due to the same gains on the sale of mortgage loans in 2009, offset by reductions of $130,000 in customer service fees on deposits.

Increased operating expenses were reported for each of the past three years primarily in the categories of salaries and employee benefits, foreclosure and marketing. In 2010, salaries and employee benefits increased by $656,000 or 9% due to annual salary increases along with employee medical insurance expenses. Foreclosure expenses increased by $48,000 or 7% due to the resolution of several large non-performing loans and marketing expenses increased by $40,000 or 9% due to increased marketing efforts to capitalize on market opportunities for both lending and deposit growth. Offsetting these increases in 2010 was a decrease in deposit insurance expense. In 2009, the Federal Deposit Insurance

Corporation ("FDIC") charged a one-time assessment that totaled $405,000 for the Bank along with an increase in the regular assessment rate. This rate increase also affected the Bank's 2010 FDIC assessment. Increased operating expenses in 2009 over 2008 can also be attributed to the same FDIC one-time assessment along with an increase in its regular assessment. Additionally, foreclosure-related expenditures increased to $678,000 in 2009 compared to $202,000 for 2008. Salaries and employee benefits expense along with occupancy and equipment expenses increased in 2009 and can be attributed, in part, to the opening of a new branch in Norwell along with annual salary increases and increased benefit costs. The efficiency ratio, a measure of operating expenses as a percentage of operating income, was 45%, 49% and 53% for the years 2010, 2009 and 2008, respectively.

Net Interest Income

The Bank reported $31.7 million in net interest income in 2010 compared to $27.2 million in 2009 and $21.3 million in 2008. Beginning in late 2007, and throughout 2008, interest rates dropped dramatically and continued to decline during both 2009 and 2010. The cost of deposits and borrowings, which are more susceptible to rate changes, dropped dramatically during 2008 and remained low in both 2009 and 2010, allowing a large portion of deposit and borrowing balances to reprice to lower rates. The Bank's net yield on average earning assets has been positively impacted by this change in the interest rate environment and increased from 2.86% in 2008 to 3.30% in 2009 and 3.37% in 2010. Additionally, during the same period the Bank recognized significant increases in loan and deposit balances contributing to net interest income.

Average total earning assets increased 14% in 2010 compared to 2009 and 10% in 2009 over 2008. The Bank earned an average yield of 4.97% on its assets in 2010 as compared to 5.44% in 2009 and 5.80% in 2008. Interest income is derived from commercial and residential mortgages, home equity, consumer and commercial loans, the securities portfolio and short-term investments. Interest income increased 5% in 2010 over 2009 and 3% in 2009 over 2008, resulting from continued growth in loans, the most significant component of assets, accounting for approximately 80% of average total earning assets in 2010, 84% in 2009 and 84% in 2008. Mortgage loans accounted for more than 99% of average outstanding loans in each of the past three years. Interest income derived from securities and short-term investments decreased in 2010, as compared to 2009, and in 2009, as compared to 2008, due to lower market rates. This category also includes dividends paid on Federal Home Loan Bank ("FHLB") stock. In early 2009, the FHLB announced a capital retention plan and, as such, discontinued the payment of dividends. The Bank maintains $13.4 million in stock at the FHLB and did not receive any income in 2010 and 2009, as compared to $490,000 paid in 2008.

Non-accrual loans totaled $5.7 million at December 31, 2010 as compared to $9.4 million at December 31, 2009 and $7.1 million at December 31, 2008. Interest income includes actual payments made on loans classified as non-accrual. Excluded from interest income is interest not paid on such loans, which totaled $129,000 for 2010 as compared to $407,000 for 2009 and $424,000 for 2008.

In response to market conditions, the Bank decreased the rates it paid on the more volatile of its interest-bearing deposit accounts in 2010, 2009 and 2008 while many core deposit rates were unaffected. This extended period of declining deposit rates allowed most term certificates to roll over at lower rates and also allowed the Bank to lower rates on money market accounts to reflect market conditions. As a result, interest expense paid on deposits decreased by 21% in 2010 from 2009 and decreased 14% in 2009 from 2008. The average rate paid on certificates of deposit decreased by 86 basis points in 2010 from 2009 and decreased 110 basis points in 2009 from 2008. The average rate paid for money market accounts decreased by 38 basis points in 2010 from 2009 and decreased 68 basis points in 2009 from 2008. Certificates of deposit were 48% of total deposits at year-end 2010 as compared to 51% at year-end 2009 and 59% at year-end 2008. Given the current economic environment, management believes it is unlikely that deposit market rates will rise significantly in 2011 and, as a result, the low cost of these liabilities is expected to continue for the next fiscal year.

Interest expense on borrowed funds decreased in 2010 as compared to 2009 due to decreased market rates along with a reduction in average borrowed funds. Borrowings from the FHLB are drawn to fund growth in the loan portfolio, however, due to strong deposit growth in 2010, the Bank was able to fund loan growth with deposits along with lowering the average balance of FHLB advances. At December 31, 2010, the weighted average rate on FHLB borrowings was 2.93% compared to 3.33% at December 31, 2009. The average cost of all borrowings was 3.27% for 2010 as compared to 3.41% for 2009 and 4.10% for 2008. Beginning in late 2008 and throughout 2010, the Bank has been refinancing some of its maturing debt for longer periods to take advantage of low, long-term funding costs and reduce the Bank's reliance on short-term debt. The Bank intends to continue this practice into 2011 and possibly beyond, to the extent that longer-term market rates remain attractive.

Provision for Loan Losses

The provision for loan losses is based on management's assessment of the adequacy of the allowance for loan losses. Management considers historical charge-offs, loan-to-value ratios, underlying collateral values, payment history, the size of the loan portfolio and the risks associated with certain loan types as well as other factors such as local economic trends, market conditions and credit concentrations. (Refer to Notes 1 and 4 to the Consolidated Financial Statements for more details.)

The following table presents information regarding changes in interest and dividend income and interest expense of the Bank for the years indicated. For each category, information is provided with respect to changes attributable to changes in rate (change in rate multiplied by old volume) and changes in volume (change in volume multiplied by old rate). The change attributable to both volume and rate is allocated proportionately to the changes due to volume and rate.

	Years Ended December 31,					
	2010 Compared to 2009 Increase (Decrease)			2009 Compared to 2008 Increase (Decrease)		
	Due to			Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(In Thousands)					
Interest and dividend income:						
Loans	$ 3,873	$ (1,193)	$ 2,680	$ 4,123	$ (1,408)	$ 2,715
Securities	413	(1,009)	(596)	358	(1,021)	(663)
Short-term investments and certificates of deposit	245	(302)	(57)	(3)	(560)	(563)
Total interest and dividend income	4,531	(2,504)	2,027	4,478	(2,989)	1,489
Interest expense:						
Interest-bearing deposits:						
Regular	16	—	16	12	1	13
Money market	799	(691)	108	1,089	(706)	383
NOW	(1)	1	—	3	—	3
Term certificates	509	(2,842)	(2,333)	1,200	(3,342)	(2,142)
Total interest-bearing deposits	1,323	(3,532)	(2,209)	2,304	(4,047)	(1,743)
Borrowed funds	10	(302)	(292)	(1,089)	(1,549)	(2,638)
Total interest expense	1,333	(3,834)	(2,501)	1,215	(5,596)	(4,381)
Net interest income	$ 3,198	$ 1,330	$ 4,528	$ 3,263	$ 2,607	$ 5,870

In 2010, the Bank had net loan charge-offs of $132,000 compared to $493,000 in 2009. The Bank continues to closely monitor its non-accrual loans, which were 0.72% of total loans at December 31, 2010 compared to 1.30% at December 31, 2009, and its loans past due greater than 30 days, which have decreased to 1.81% of total loans at December 31, 2010 as compared to 1.85% at December 31, 2009 and 1.70% at December 31, 2008. The provision for loan losses for 2010 was $1.3 million as compared to $1.7 million in 2009 and $805,000 in 2008. The reduction in 2010 was due to the resolution of several large non-performing loans and lower charge-offs. The Bank continues to be cautious due to continued deterioration in the housing markets and volatility of economic indicators. As a percentage of the gross loan portfolio, the allowance for loan losses was 0.86% for 2010, 0.79% for 2009, and 0.70% for 2008.

Other Income

Other income was $1.6 million compared to $2.0 million in 2009 and $1.7 million in 2008. Other income is comprised of gains on sale of loans, customer service fees, increases in the cash surrender value of life insurance policies and miscellaneous income. During 2009, the Bank sold $25.3 million in fixed-rate consumer mortgages (with servicing retained). To minimize the Bank's overall interest rate risk, two pools of loans were packaged and sold in the secondary market producing gains totaling $454,000. During 2010 and 2008, the Bank did not sell any loans. Fees earned on customer accounts were $893,000 in 2010, $857,000 in 2009 and $987,000 in 2008. Customer service fee income was derived primarily from deposit account transaction fees and ATM/debit card usage fees. The fees reflect a rebounding in volume on fee-based transactions in 2010 combined with modest increases in the schedule of fees. ATM/debit card fees also increased due to an increase in interchange volume.

Also contributing to other income in each of the three years was the increase in the cash surrender value of life insurance policies. The Bank held $14.1 million in life insurance policies at year-end 2010 compared to $13.6 million at year-end 2009. Income from these assets is fully excludable from federal income taxes and contributed $459,000 to other income in 2010, $458,000 in 2009 and $464,000 in 2008. The policies accrete at a variable rate of interest with minimum stated guaranteed rates.

The following table details changes in net interest income and net yield on average earning assets.

	Years Ended December 31,								
	2010			2009			2008		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in Thousands)								
Assets:									
Loans:									
Real estate loans.........	$ 756,232	$ 44,807	5.93 %	$ 691,457	$ 42,134	6.09 %	$ 624,483	$ 39,417	6.31 %
Commercial loans	261	27	10.34	252	28	11.11	170	22	12.94
Other loans	654	44	6.73	518	37	7.14	555	45	8.11
Total Loans (1) (2) ...	757,147	44,878	5.93	692,227	42,199	6.10	625,208	39,484	6.32
Securities (3) (4.....………	104,920	1,524	1.45	85,427	2,120	2.48	74,748	2,783	3.72
Short-term investments and certificates of deposit. ...	79,615	423	0.53	46,251	479	1.04	46,385	1,042	2.25
Total interest-earning assets	941,682	46,825	4.97	823,905	44,798	5.44	746,341	43,309	5.80
Other assets	34,344			42,928			27,211		
Total assets	$ 976,026			$ 866,833			$ 773,552		
Liabilities and stockholders' equity:									
Interest-bearing deposits:									
Regular	$ 52,998	$ 133	0.25 %	$ 46,478	$ 117	0.25%	$ 41,747	$ 104	0.25 %
Money market	223,752	2,240	1.00	154,034	2,132	1.38	85,015	1,749	2.06
NOW (5)	27,374	27	0.10	28,366	27	0.10	24,706	24	0.10
Term certificates.........	334,948	5,725	1.71	313,932	8,058	2.57	277,977	10,200	3.67
Total interest-bearing deposits	639,072	8,125	1.27	542,810	10,334	1.90	429,445	12,077	2.81
Borrowed funds	213,138	6,973	3.27	212,841	7,265	3.41	241,362	9,903	4.10
Total interest-bearing liabilities	852,210	15,098	1.77	755,651	17,599	2.33	670,807	21,980	3.28
Demand deposits	51,034			42,873			42,803		
Other liabilities	3,074			5,338			3,230		
Stockholders' equity	69,708			62,971			56,712		
Total liabilities and stockholders' equity...	$ 976,026			$ 866,833			$ 773,552		
Net interest income.........		$ 31,727			$ 27,199			$ 21,329	
Weighted average interest rate spread			3.20 %			3.11%			2.52 %
Net yield on average earning assets (6)......			3.37 %			3.30%			2.86 %

(1) *Before allowance for loan losses.*
(2) *Includes average non-accrual loans.*
(3) *Excludes the impact of the average unrealized gain (loss) on securities available for sale.*
(4) *Includes Federal Home Loan Bank stock.*
(5) *Includes mortgagors' escrow accounts.*
(6) *Net interest income divided by average total earning assets*

Operating Expenses

Total operating expenses as a percentage of average total assets were 1.53% for 2010, 1.66% for 2009, and 1.57% for 2008. Although total operating expenses in 2010 increased by $607,000, or 4% over 2009, the net interest margin increased at a greater rate of 17%.

Salaries and employee benefits continue to be the largest component of operating expenses at $8.4 million for 2010, $7.7 million for 2009 and $7.1 million for 2008. Annual merit-based salary increases, which averaged approximately 6% for 2010 compared to 5% for 2009 and 4% for 2008, accounted for the majority of the increase in each year. Additionally, 2010 saw increases in medical insurance expenses associated with greater participation in the plans and an increase in premiums.

Also contributing to the increase in salaries and employee benefits expenses in each year was the expense associated with a Supplemental Employee Retirement Plan for certain Bank officers, which accounted for $604,000 in expense for 2010, $595,000 in expense for 2009 and $611,000 in expense for 2008. For 2010, 2009 and 2008, 401(k) expenses were $290,000, $261,000 and $241,000, respectively. Health care benefits, including medical and dental, rose approximately 12% in 2010 over 2009 and 31% in 2009 over 2008. In both 2010 and 2009, the Bank noted increased participation in the medical plans due to the addition of staff and increased enrollment.

The Bank guarantees a death benefit for certain current and former executive officers. The expense associated with this liability was $288,000 in 2010 compared to $421,000 in 2009 and $263,000 for 2008. The increase in 2009 was due to the departure of one executive covered under the plan and the associated escalation of service cost that totaled $168,000.

Data processing expenses were relatively flat between 2010, 2009 and 2008 at $853,000, $859,000 and $837,000, respectively. The Bank continually performs upgrades to its information technology infrastructure, however, in 2010 the Bank recognized savings from lower ATM network fees due to lower transaction volume. Additionally, the Bank converted to a more efficient check processing system in late 2009 that reduced processing charges in 2010 and provided for more timely collection.

Occupancy and equipment expenses decreased by 4% in 2010 compared to 2009 due to several large purchases in prior years being fully depreciated in 2010. In 2009, the Bank had an increased level of maintenance performed on several of its properties. Occupancy and equipment expense increased 5% in 2009 from 2008 and is largely attributed to the 2008 opening of the Bank's ninth office in Norwell, Massachusetts. This category also includes $178,000, $178,000 and $167,000 in rent expenses for 2010, 2009 and 2008, respectively.

Deposit insurance expenses were $1.1 million in 2010, compared to $1.3 million in 2009 and $341,000 in 2008. Deposit insurance expense consists of premiums paid to the FDIC and the Massachusetts Deposit Insurance Fund ("DIF"). In 2009, the FDIC announced a significant increase in premiums along with a special assessment that amounted to $405,000 for the Bank. It called for a prepayment of an estimate for 2010 to 2012 that included an annual increase in insured deposits of 5% per year, along with a 3 basis point increase in the assessment rate. In 2010, there was no special assessment, however, premiums increased consistent with the announcement. In 2010, the Bank expensed a portion of the prepayment that included the rate increase along with the actual increase in deposit balances.

Foreclosure expenses include expenses related to foreclosing on collateral, maintaining properties, subsequent write-downs in the value of collateral and any net losses or gains associated with their disposition. During 2010, total foreclosure related expenses were $726,000 compared to $678,000 in 2009 and $202,000 in 2008. Expenses in 2010 were primarily comprised of $46,000 in write-downs on properties and $800,000 in legal, real estate taxes, utilities, insurance and other expenses related to the foreclosure process and maintaining properties. This was partially offset by $120,000 in gains on disposal of properties.

Marketing expenses were $501,000 in 2010, $461,000 in 2009 and $409,000 in 2008. The increase in 2010 was due to additional marketing initiatives to promote the stability of the Bank including the security of full insurance coverage on deposit balances. Additionally, the Bank has been promoting competitive deposit and loan products and rates.

All other operating expenses were $2.2 million in 2010, $2.0 million for 2009 and $1.9 million in 2008. Operating expenses include audit fees, directors' fees, supplies, postage, legal fees, bank fees, reporting costs and other items.

Income Taxes

The Bank's effective tax rate was 40.1% for 2010, 38.8% for 2009 and 37.6% for 2008. The increase in the effective tax rate in 2010 over 2009 is attributable to the increase in pre-tax income, placing the Bank in a higher tax bracket. The increase in the effective tax rate in 2009 over 2008 is attributable to income earned on the Bank's investment portfolio along with income derived from the bank-owned life insurance policies becoming a lower portion of overall income. The Bank's investment securities are held in Massachusetts security corporations whose earnings are taxed at lower state rates. Income derived from bank-owned life insurance policies is tax-exempt.

BALANCE SHEET ANALYSIS

COMPARISON OF THE YEARS 2010 AND 2009

The Bank had total assets of $1.0 billion at December 31, 2010, an increase of $92.3 million, or 10%, from the $925.6 million level at year-end 2009.

Loans

At December 31, 2010 and 2009, the Bank reported net loans of $792.9 million, or 78% of total assets, and $718.2 million, or 78% of total assets, respectively. In 2010, the Bank originated $265.5 million in mortgage and other loans which resulted in net growth of $74.7 million. At December 31, 2010 and 2009, mortgage loans accounted for more than 99% of gross loans. At December 31, 2010, commercial mortgages represented 48% of the mortgage loan portfolio, while residential mortgages and home equity loans represented 48% and construction loans represented 4%. At December 31, 2009, commercial mortgages represented 48% of the mortgage portfolio, while residential mortgages and home equity loans represented 47% and construction loans represented 3%.

The Bank's lending strategy during 2010 and 2009 has continued to focus on the origination of commercial, multi-family and single-family mortgage loans. Mortgages increased by 10% in 2010. Approximately 41% of the residential mortgage loan portfolio consists of 20/20 mortgages – a forty-year mortgage with a fixed rate that is subject to change, one time, at the end of the twenty-year period. Other residential mortgages are generally underwritten to conform to Federal National Mortgage Association ("FNMA") or Federal Home Loan Mortgage Corporation ("FHLMC") guidelines. During 2009, the Bank sold $25.3 million in fixed-rate mortgages to FHLMC as part of a strategy to limit the Bank's interest rate risk. With long-term rates near historic lows, the Bank believes it is prudent to reduce its risk to rising interest rates by selling a portion of recent production. The Bank recognized gains associated with the sales of $454,000. The Bank did not sell any loans in 2010. The Bank also offers home equity loans indexed to the prime lending rate and construction loans.

The Bank's loan portfolio is reported net of the allowance for loan losses. At December 31, 2010 and 2009, the allowance had a balance of $6.9 million and $5.7 million, respectively. The allowance is maintained at a level which the Bank believes is adequate to absorb inherent losses in the portfolio. The allowance is reviewed by senior management on at least a quarterly basis to determine its adequacy. Factors considered include historic losses, loan-to-value ratios, underlying collateral values, payment history, the size of the loan portfolio and the risks associated with certain loan types as well as other factors such as local economic trends, real estate market conditions and credit concentrations. (Refer to Notes 1 and 4 to the Consolidated Financial Statements for more details.) Loan losses are charged against the allowance when the collectibility of loan principal becomes unlikely. In 2010, 2009 and 2008, the Bank had net charge offs of $132,000, $493,000 and $200,000, respectively.

The Bank works closely with delinquent mortgagors to bring their loans current and foreclosure proceedings commence if the mortgagor is unable to satisfy their outstanding obligation. In 2010, the Commonwealth of Massachusetts enacted a law which grants a mortgagor a 150-day right to cure a default on residential real property mortgages. Land court filings, which are part of the foreclosure process in Massachusetts, are experiencing backlogs due to the volume of foreclosure filings in the state. This continues to delay the Bank's collection process.

The Bank had non-accrual loans at December 31, 2010 with a combined outstanding balance of $5.7 million as compared to $9.4 million at December 31, 2009. As a percentage of total loans, these non-accrual loans were 0.72% at December 31, 2010 and 1.30% at December 31, 2009. All loans on non-accrual, except $1,000 at December 31, 2010 and $11,000 at December 31, 2009, are considered impaired and, as such, are reviewed for specific reserve allocation. At December 31, 2010 and 2009, $145,000 and $125,000, respectively, was allocated to impaired loans.

Securities

The purpose of the Bank's securities portfolio is to provide liquidity and to serve as collateral to obtain borrowed funds. At December 31, 2010, the portfolio of $95.1 million represented 9% of total assets, as compared to $96.4 million, or 10% of total assets, at year-end 2009. At December 31, 2010 and 2009, 97% of the securities in the portfolio were issued or guaranteed by government-sponsored enterprises.

At December 31, 2010, 97% of the portfolio consisted of bond issues. For the most part, these securities are offered at a fixed rate and term and at spreads above comparable U.S. Treasury issues. Approximately 22% of the bond issues are subject to redemption at dates earlier than the stated maturity at the discretion of the issuer.

At December 31, 2010, less than 1% of the portfolio, or $239,000, was comprised of mortgage-backed securities, a decrease of $4.5 million over the balances held at December 31, 2009. Mortgage-backed securities are subject to declines in principal balances due to principal repayments. Repayments tend to increase as market interest rates fall and the individual underlying mortgages are refinanced at lower rates. Conversely, repayments tend to decrease as market interest rates rise.

The portfolio also includes a $3.0 million investment in the CRA Fund, a mutual fund which invests in securities which qualify under the Community Reinvestment Act ("CRA") securities test. This investment accounted for 3% of the investment portfolio at December 31, 2010. The Bank did not hold any equity securities issued by FNMA or FHLMC and was unaffected by the devaluation of these securities which occurred in 2008.

At year-end 2010 and 2009, the entire securities portfolio was classified as available for sale and was carried at fair value with unrealized gains or losses reported in accumulated other comprehensive income, a separate component of stockholders' equity. The net unrealized gain on the portfolio amounted to $196,000, net of tax effects, at December 31, 2010 as compared to $458,000 at year-end 2009, reflecting changing market conditions and the maturity of higher yielding securities. The fair value of securities fluctuates with the movement of interest rates and is impacted by maturities. Generally, during periods of falling interest rates, the fair values increase whereas the opposite may hold true during a rising interest rate environment. However, due to the short-term nature of the investment portfolio, market value adjustments lessen as a maturity date gets closer.

As a member of the Federal Home Loan Bank of Boston, the Bank is required to hold a Membership Stock Investment plus an Activity-based Stock Investment which generally approximates 5% of the Bank's borrowings balance. At December 31, 2010 and 2009, this investment accounted for less than 2% of total Bank assets. During 2008, the FHLB announced a capital retention plan which prevented the Bank from redeeming its excess stock. At December 31, 2010 and 2009, the Bank held $13.4 million in FHLB stock. Additionally, in early 2009, the FHLB announced the suspension of dividends on its stock and during both 2010 and 2009 no dividends were received.

The Bank also holds certificates of deposit issued by other banks. At December 31, 2010, these investments amounted to $13.9 million, or 1% of total assets, as compared to $13.2 million, or 1% of total assets, at December 31, 2009. In 2008, the FDIC increased its maximum insurance coverage to $250,000 per depositor effective through December 31, 2013, and in 2010 this coverage was made permanent. No single certificate held by the Bank exceeds this maximum and, therefore, all are insured in full by the FDIC.

Foreclosed Assets

At December 31, 2010, the Bank held four properties totaling $3.6 million compared to four properties totaling $3.2 million at December 31, 2009. At December 31, 2010, the properties consist of two commercial real estate properties carried at $2.8 million and two residential properties carried at $769,000. The Bank is carrying the properties as held for sale and as such has marked the properties to the lower of the carrying amount or the fair value, less estimated costs to sell.

Other Assets

The Bank held $14.1 million in Bank-owned life insurance at December 31, 2010 as compared to $13.6 million at December 31, 2009. The increase in 2010 was attributable to the increase in the cash surrender values of the underlying policies. The policies, which insure the lives of certain current and former Bank officers, accrete at a variable rate of interest with minimum stated guaranteed rates. The Bank monitors the credit ratings of the policy issuers and has determined that, at December 31, 2010, all issuers were rated at or above Bank guidelines.

Deposits

At December 31, 2010, the Bank held a total of $730.0 million in deposits, an increase of $98.9 million, or 16%, from the $631.1 million in deposits at year-end 2009. The growth experienced in 2010 is a continuation of the trend seen during 2009 and was attributable to volatility in the financial markets as depositors sought the safe haven offered by fully insured depository institutions. Additionally, the Bank recognized growth associated with its newest branch in Norwell, Massachusetts, which opened in mid-2008. Non-certificate deposits, comprised of savings, NOW, money market, and demand deposit accounts, were $377.2 million at December 31, 2010 as compared to $310.5 million at year-end 2009, an increase of $66.7 million, or 21%, which was attributable to growth in money market accounts of $53.8 million, or 29%, in regular savings accounts of $9.6 million, or 20%, and transaction accounts of $3.3 million, or 4%. Non-certificate deposits comprised 52% of total deposits at December 31, 2010 as compared to 49% at year-end 2009. Certificates of deposit were $352.8 million at December 31, 2010 as compared to $320.6 million at year-end 2009.

Primary competition for deposits is other banks and credit unions in the Bank's market area and on the internet as well as mutual funds. The Bank's ability to attract and retain deposits depends upon satisfaction of depositors' requirements with respect to insurance, product, rate and service. The Bank offers traditional deposit products, competitive rates, convenient branch locations, automated teller machines, debit cards, telephone banking and internet-based banking for consumers and commercial account holders. In the second quarter of 2008, the Bank opened a new branch in Norwell which has, thus far, surpassed management's expectations with respect to deposit growth.

Deposits are insured in full through the combination of the Federal Deposit Insurance Corporation and the Deposit Insurance Fund of Massachusetts ("DIF"). Generally, separately insured deposit accounts are insured up to $250,000 by the FDIC and deposit balances in excess of this amount are insured by the DIF. DIF insurance provides an advantage for the Bank as some competitors cannot offer this coverage.

Borrowings

The Bank had $207.6 million, or 20% of its assets, in borrowed funds at December 31, 2010 as compared to $222.6 million, or 24% of total assets, at year-end 2009, representing a decrease of $15.0 million. During 2010, the average balance of borrowed funds was $213.1 million compared to $212.8 million in 2009. In 2010, the Bank's deposit base increased by $98.9 million and a portion of these funds were used to fund growth in assets and redeem FHLB maturing debt. Generally, borrowings are drawn with a fixed rate and term; however, approximately $39.0 million, or 19%, can be called by the issuer after an initial specified term, and an additional $1.1 million is subject to principal amortization over its stated life. At December 31, 2010, 32% of all borrowings will mature within one year as compared to 23% at December 31, 2009. During 2010, the Bank refinanced many borrowings at longer terms to lock in lower-cost funding for future periods. The average rate paid on borrowings held at year-end 2010 was 2.93%, down from 3.33% at year-end 2009, reflecting a combination of a decrease in market interest rates in 2010 along with extended maturities.

In 2008, the Bank purchased property in Norwell for its newest branch location. The Bank financed the purchase through the issuance of a mortgage in the amount of $1.2 million to the seller. The mortgage note is at a market rate, amortizes monthly and matures in 2028.

Liquidity, Capital Resources, Off-Balance Sheet Arrangements and Contractual Obligations

The Bank continually assesses its liquidity position by forecasting incoming and outgoing cash flows. In some cases, contractual maturity dates are used to anticipate cash flows. However, when an asset or liability is subject to early repayment or redemption at the discretion of the issuer or customer, cash flows can be difficult to predict. Generally, these prepayment rights are exercised when it is most financially favorable to the issuer or customer.

The majority of debt securities issued by government-sponsored enterprises, or approximately 76% of the Bank's investment portfolio, is fixed with respect to rate and maturity date. Eleven securities, or 20%, are subject to redemption, at par, at the discretion of the issuer and, based on current market rates, are expected to be redeemed upon their contractual call dates. Mortgage-backed securities, which comprise less than 1% of the portfolio, are subject to repayment at the discretion of the underlying borrower. The Bank monitors the trends in prepayment speeds and anticipates how these factors will impact its liquidity targets.

Investment in FHLB stock is illiquid. Certificates of deposit held as an investment are at stated fixed rates and maturity dates.

Residential loans are susceptible to principal repayment at the discretion of the borrower. Commercial mortgages, while subject to significant penalties for early repayment in most cases, can also prepay at the borrower's discretion. The Bank experienced an overall prepayment rate of approximately 20% on its loan portfolio in both 2010 and 2009. For 2011, prepayment rates are expected to slow as refinancing has slowed and rates are expected to remain relatively stable.

The proceeds to the Bank under key executive life insurance policies are illiquid during the lives of the executives. Such policies total $14.1 million, or less than 2% of total assets, at December 31, 2010 as compared to $13.6 million, or less than 2%, at December 31, 2009.

Non-certificate deposit balances can generally be withdrawn from the Bank at any time. Certificates of deposit, with predefined maturity dates and subject to early redemption penalties, can also be withdrawn. The Bank estimates the volatility of its deposits in light of the general economic climate and recent actual experience. Over the past 10 years, deposits have exceeded withdrawals resulting in net cash inflows from depositors.

Approximately 81% of the Bank's borrowings are fixed in terms of maturity. Less than 1% of the borrowings amortize over their stated lives and the Bank monitors these scheduled cash outflows. Approximately 19%, or $39.0 million, can be called for earlier repayment at the discretion of the issuer. However, in the current economic environment, it is unlikely that all of these borrowings will be called in the near term.

The Bank also monitors its off-balance sheet items. At December 31, 2010, the Bank had approximately $88.0 million in commitments to extend credit as compared to $71.1 million at December 31, 2009. (Refer to Note 10 to Consolidated Financial Statements for more details.) No other off-balance sheet arrangements existed at December 31, 2010 or 2009.

The Bank takes each of these preceding issues into consideration when measuring its liquidity position. Specific measurements include the Bank's cash flow position from the 30-day to 90-day horizon, the level of volatile liabilities to earning assets and loan to deposit ratios. Additionally, the Bank "shocks" its cash flows by assuming significant cash outflows in both non-certificate and certificate deposit balances. At December 31, 2010 and 2009, each measurement was within predefined Bank guidelines.

To supplement its liquidity position, should the need arise, the Bank maintains its membership in the Federal Home Loan Bank of Boston where it is eligible to obtain both short and long-term credit advances. The Bank can borrow up to approximately $343.3 million to meet its borrowing needs, based on the Bank's available qualified collateral which consists primarily of 1-4 family residential mortgages, certain multifamily residential property, assets held in one of its securities corporation subsidiaries and certain commercial mortgages. Upon specific approval from the FHLB, the Bank may also pledge other mortgages or other deposit balances as collateral to secure as much as approximately $131.1 million in additional borrowings. At December 31, 2010, the Bank had $207.6 million in advances outstanding. Additionally, the Bank has registered with the Federal Reserve Bank to access their discount window. The Bank may access this line by assigning assets as collateral.

At December 31, 2010, the Bank had capital of $72.7 million, or 7.1% of total assets, as compared to $65.3 million, or 7.1%, at December 31, 2009. Total capital is adjusted by the unrealized gains or losses in the Bank's available-for-sale securities portfolio and, as such, it is subject to fluctuations resulting from changes in the market values of its securities available for sale. At December 31, 2010, the Bank's entire securities portfolio was classified as available for sale which had the effect of increasing capital by $196,000. In comparison, at year-end 2009, capital was increased by $458,000.

Massachusetts-chartered savings banks that are insured by the FDIC are subject to minimum capital maintenance requirements. Regulatory guidelines define the minimum amount of qualifying capital an institution must maintain as a percentage of risk-weighted assets and average total assets. The Bank's ratios exceeded these regulatory capital requirements in both 2010 and 2009. (Refer to Note 11 to the Consolidated Financial Statements for more details.)

During 2010, the Bank declared dividends of $1.19 per share which included a $0.25 per share special dividend which was declared in the fourth quarter. In comparison, in 2009, the Bank declared dividends of $1.09 per share that included a $0.23 per share special dividend. The Bank's dividend payout ratio, which is calculated by dividing dividends per share into earnings per share, was 24.74% for 2010 as compared to 28.76% for 2009.

IMPACT OF INFLATION AND CHANGING PRICES

The consolidated financial statements and related consolidated financial data presented herein have been prepared in conformity with U.S. GAAP, which generally requires the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on operations of the Bank is reflected in increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

FORWARD-LOOKING STATEMENTS

This annual report may contain statements relating to future results of the Bank (including certain projections and business trends) that are considered "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those projected as a result of certain risks and uncertainties, including but not limited to changes in political and economic conditions, interest rate fluctuations, and competitive product and pricing pressures within the Bank's market, bond market fluctuations, personal and corporate customers' bankruptcies, and inflation, as well as other risks and uncertainties.

ASSET/LIABILITY MANAGEMENT

The earnings of most banking institutions are exposed to interest rate risk because their balance sheets, both assets and liabilities, are predominantly interest bearing. It is the Bank's objective to minimize, to the degree prudently possible, its exposure to interest rate risk, bearing in mind that the Bank, by its very nature, will always be in the business of taking on interest rate risk. Interest rate risk is monitored on a quarterly basis by the Asset Liability Committee (“ALCO”) of the Bank. The primary tool used by the Bank in managing interest rate risk is income simulation modeling. Income simulation modeling measures changes in net interest income by projecting the future composition of the Bank's balance sheet and applying different interest rate scenarios.

Management incorporates numerous assumptions into the simulation model, such as prepayment speeds, balance sheet growth and deposit elasticity. Generally, rates are assumed to rise steadily over a twelve-month period, and then remain constant over the remaining period. At December 31, 2010, the model assumed a 100 and 200 basis point increase in interest rates where the magnitude of the rate change varies with the term. For example, longer-term rates are modeled to change by 60 basis points and short-term rates are modeled to change by 100 basis points. The model estimates that, over a twenty-four month period, net interest income will decrease 4.25% if rates rise 100 basis points and will decrease 8.36% if rates rise 200 basis points.

The Bank's interest rate risk exposure is believed to be well managed and within pre-defined limits.

To a significantly lesser degree, the Bank also utilizes GAP analysis which involves comparing the difference between interest-rate sensitive assets and liabilities that mature or reprice during a given period of time. However, GAP analysis does not measure the financial impact of mismatched assets to liabilities, nor does it measure the velocity at which assets and liabilities reprice.

At both December 31, 2010 and December 31, 2009, loans, as a percent of total earning assets, were 81%. The composition of the Bank's liabilities changed such that interest-bearing deposits to total interest-bearing liabilities were 78% at year-end 2010, as compared to 74% at the prior year-end. Since late 2008, the Bank has been attracting a significant volume of new deposits which were used to reduce borrowings and fund loan growth.

At December 31, 2009, liabilities that reprice within one year exceeded assets repricing within the same period by $187.5 million. Market interest rates remained relatively flat during 2010. The Federal Reserve Bank lowered its targeted Federal Funds rate to near zero in late 2008 and has kept it at this level over the past two years. The prime lending rate has also stayed level at 3.25% during the last two years. Longer-term rates have declined slightly in 2010. The Bank was positively impacted by the lowering of market interest rates during 2010. The yield on earning assets declined by 47 basis points. However, the average rate on funding costs, in the form of deposits and borrowings, dropped by 56 basis points, contributing $2.5 million, or 55%, of the $4.5 million improvement in net interest income for 2010.

At December 31, 2010, liabilities that reprice within one year exceeded assets repricing within the same period by $198.2 million indicating that the Bank is susceptible to lower net interest income in the event that market rates rise in 2011. To take advantage of the lowering cost of long-term funding, the Bank anticipates that it will continue to refinance a portion of its short-term debt at longer terms.

At December 31, 2010, the Bank had the following contractual obligations outstanding:

	Payments Due by Year (In Thousands)				
	Total	Less than One Year	One to Three Years	Over Three to Five Years	Over Five Years
Contractual Obligations:					
Federal Home Loan Bank advances	$ 207,580	$ 66,500	$ 32,000	$ 73,000	$ 36,080
Certificates of deposit	352,775	292,937	54,583	5,255	—
Data processing agreements (1)	671	546	125	—	—
Lease agreements (2)	857	178	371	280	28
Other borrowings	1,147	40	87	98	922

(1) Estimated payments subject to change based on transaction volume.

(2) Leases contain provisions to pay certain operating expenses, the cost of which is not included above. Lease commitments are based on the initial contract term, or longer when, in the opinion of management, it is more likely than not that the lease will be renewed.

The following tables present interest-rate sensitive assets and liabilities categorized by expected maturity (or interest rate adjustment date, if earlier) and weighted average rates. Expected maturities of loans are adjusted for amortization and prepayments of principal. Prepayment speeds range from 0% to 28% depending upon the particular asset category. Generally, adjustable-rate loans are indexed to Prime and treasury rates and can reprice as much as 200 basis points per year and 600 basis points over the life of the loan. Non-certificate deposits do not have contractual maturities. The tables reflect management's current assumptions about the volatility of such deposits.

December 31, 2010 **Maturing or repricing within:**	**One Year**	**1-2 Years**	**2-3 Years**	**3-4 Years**	**4-5 Years**	**Thereafter**	**Total**
				(Dollars in Thousands)			
Interest-earning assets:							
Securities (at cost) (1), short-term investments and certificates of deposit…	$ 113,334	$ 61,568	$ 8,736	$ —	$ —	$ —	$ 183,638
	1.51 %	1.62 %	1.02 %	— %	— %	— %	1.30 %
Loans:							
Fixed rate ……………………………	$ 44,517	$ 35,109	$ 29,682	$ 26,706	$ 25,381	$ 79,917	$ 241,312
	6.08 %	5.84 %	5.78 %	5.79 %	5.81 %	5.88 %	5.88 %
Adjustable rate………………………	$ 154,677	$ 91,553	$ 80,507	$ 74,233	$ 71,699	$ 84,927	$ 557,596
	5.72 %	6.08 %	5.90 %	5.79 %	5.63 %	5.42 %	5.76 %
Interest-bearing liabilities:							
Deposits:							
Non-certificate accounts …………….	$ 151,155	$ 13,852	$ —	$ —	$ 158,639	$ —	$ 323,646
	0.91 %	0.74 %	— %	— %	0.32 %	— %	0.61 %
Term certificates ……………………	$ 292,937	$ 47,386	$ 7,197	$ 2,751	$ 2.504	$ —	$ 352,775
	1.42 %	1.83 %	2.67 %	2.89 %	2.46 %	— %	1.52 %
Borrowed funds…………………………	$ 66,640	$ 14,148	$ 18,158	$ 63,167	$ 10,177	$ 36,437	$ 208,727
	2.40 %	2.23 %	2.72 %	3.14 %	2.61 %	4.11 %	2.95 %

December 31, 2009 **Maturing or repricing within:**	**One Year**	**1-2 Years**	**2-3 Years**	**3-4 Years**	**4-5 Years**	**Thereafter**	**Total**
				(Dollars in Thousands)			
Interest-earning assets:							
Securities (at cost) (1), short-term investments and certificates of deposit…	$ 103,876	$ 53,588	$ 9,996	$ —	$ —	$ —	$ 167,460
	1.69 %	2.39 %	1.81 %	— %	— %	— %	1.92 %
Loans:							
Fixed rate ……………………………	$ 34,307	$ 24,678	$ 22,775	$ 21,364	$ 20,127	$ 88,551	$ 211,802
	6.18 %	5.87 %	5.86 %	5.88 %	5.89 %	6.18 %	6.05 %
Adjustable rate………………………	$ 121,159	$ 88,749	$ 70,914	$ 80,868	$ 77,511	$ 72,191	$ 511,392
	5.68 %	6.33 %	6.42 %	6.15 %	5.93 %	5.84 %	6.03 %
Interest-bearing liabilities:							
Deposits:							
Non-certificate accounts ……………	$ 124,422	$ 13,778	$ —	$ —	$ 123,316	$ —	$ 261,516
	1.30 %	1.10 %	— %	— %	0.42 %	— %	0.87 %
Term certificates ……………………	$ 270,351	$ 34,117	$ 9,792	$ 3,816	$ 2,501	$ —	$ 320,577
	1.86 %	2.64 %	2.85 %	3.29 %	2.97 %	— %	2.00 %
Borrowed funds…………………………	$ 52,088	$ 46,642	$ 14,152	$ 15,161	$ 59,170	$ 36,607	$ 223,820
	3.53 %	3.27 %	2.23 %	2.86 %	3.18 %	4.20 %	3.36 %

(1) Includes FHLB stock

Management's Annual Report on Internal Control over Financial Reporting

The management of the Bank is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control process has been designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Bank's financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Management conducted an assessment of the effectiveness of the Bank's internal control over financial reporting as of December 31, 2010, utilizing the framework established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Bank's internal control over financial reporting as of December 31, 2010 is effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of assets; and provide reasonable assurances that: (1) transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America; (2) receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Bank's assets that could have a material effect on the Bank's consolidated financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This annual report does not include an attestation report of the Bank's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Bank's independent registered public accounting firm pursuant to revised rules of the Securities and Exchange Commission that permit the Bank to provide only management's report in this annual report.

Robert H. Gaughen
Chief Executive Officer
March 8, 2011

Robert A. Bogart
Chief Financial Officer
March 8, 2011

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Hingham Institution for Savings:

We have audited the consolidated balance sheets of Hingham Institution for Savings and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hingham Institution for Savings and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to examine management's assertion about the effectiveness of the Bank's internal control over financial reporting as of December 31, 2010 included in the accompanying "Management's Annual Report on Internal Control over Financial Reporting," and, accordingly, we do not express an opinion thereon.

Wolf & Company, P.C.

Boston, Massachusetts
March 8, 2011

ASSETS

	December 31, 2010	December 31, 2009
	(In Thousands)	
Cash and due from banks	$ 6,298	$ 7,372
Short-term investments	61,566	45,265
Cash and cash equivalents	67,864	52,637
Certificates of deposit	13,929	13,150
Securities available for sale, at fair value	95,071	96,374
Federal Home Loan Bank stock, at cost	13,373	13,373
Loans, net of allowance for loan losses of $6,905,000 in 2010 and $5,737,000 in 2009	792,910	718,242
Foreclosed assets	3,559	3,185
Bank-owned life insurance	14,074	13,615
Premises and equipment, net	7,985	5,434
Accrued interest receivable	2,992	3,392
Prepaid FDIC assessment	2,474	3,409
Deferred income tax asset, net	2,803	1,990
Other assets	811	759
Total assets	$ 1,017,845	$ 925,560

LIABILITIES AND STOCKHOLDERS' EQUITY

	2010	2009
Deposits	$ 729,960	$ 631,087
Federal Home Loan Bank advances	207,580	222,636
Mortgage payable	1,147	1,184
Mortgagors' escrow accounts	2,344	1,968
Accrued interest payable	591	714
Other liabilities	3,487	2,678
Total liabilities	945,109	860,267
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, $1.00 par value, 2,500,000 shares authorized, none issued	—	—
Common stock, $1.00 par value, 5,000,000 shares authorized; 2,124,250 shares issued and outstanding at both December 31, 2010 and 2009	2,124	2,124
Additional paid-in capital	10,417	10,412
Undivided profits	59,999	52,299
Accumulated other comprehensive income	196	458
Total stockholders' equity	72,736	65,293
Total liabilities and stockholders' equity	$ 1,017,845	$ 925,560

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

	Years Ended December 31,		
	2010	2009	2008
	(In Thousands, Except Per Share Amounts)		
Interest and dividend income:			
Loans	$ 44,878	$ 42,199	$ 39,484
Debt securities	1,418	2,003	2,167
Equity securities	106	117	616
Short-term investments and certificates of deposit	423	479	1,042
Total interest and dividend income	46,825	44,798	43,309
Interest expense:			
Deposits	8,125	10,334	12,077
Federal Home Loan Bank advances	6,903	7,193	9,832
Mortgage payable	70	72	71
Total interest expense	15,098	17,599	21,980
Net interest income	31,727	27,199	21,329
Provision for loan losses	1,300	1,700	805
Net interest income, after provision for loan losses	30,427	25,499	20,524
Other income:			
Customer service fees on deposits	893	857	987
Increase in Bank-owned life insurance	459	458	464
Gain on sales of loans, net	—	454	—
Miscellaneous	275	239	213
Total other income	1,627	2,008	1,664
Operating expenses:			
Salaries and employee benefits	8,371	7,715	7,147
Data processing	853	859	837
Occupancy and equipment	1,280	1,333	1,271
Deposit insurance	1,074	1,335	341
Foreclosure	726	678	202
Marketing	501	461	409
Other general and administrative	2,173	1,990	1,916
Total operating expenses	14,978	14,371	12,123
Income before income taxes	17,076	13,136	10,065
Income tax provision	6,848	5,091	3,780
Net income	$ 10,228	$ 8,045	$ 6,285
Earnings per common share:			
Basic	$ 4.81	$ 3.79	$ 2.96
Diluted	$ 4.81	$ 3.79	$ 2.96

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Years Ended December 31, 2010, 2009 and 2008				
	Common Stock	Additional Paid-in Capital	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
			(In Thousands)		
Balance at December 31, 2007	$ 2,119	$ 10,290	$ 42,490	$ (128)	$ 54,771
Comprehensive income:					
Net income	—	—	6,285	—	6,285
Net unrealized gain on securities available for sale, net of tax effect	—	—	—	898	898
Total comprehensive income					7,183
Stock options exercised, after tax effect of $14,000	3	72	—	—	75
Share-based compensation	—	2	—	—	2
Cash dividends declared-common ($1.04 per share)	—	—	(2,206)	—	(2,206)
Balance at December 31, 2008	2,122	10,364	46,569	770	59,825
Comprehensive income:					
Net income	—	—	8,045	—	8,045
Net unrealized loss on securities available for sale, net of tax effect	—	—	—	(312)	(312)
Total comprehensive income					7,733
Stock options exercised, after tax effect of $12,000	2	48	—	—	50
Cash dividends declared-common ($1.09 per share)	—	—	(2,315)	—	(2,315)
Balance at December 31, 2009	2,124	10,412	52,299	458	65,293
Comprehensive income:					
Net income	—	—	10,228	—	10,228
Net unrealized loss on securities available for sale, net of tax effect	—	—	—	(262)	(262)
Total comprehensive income					9,966
Share-based compensation	—	5	—	—	5
Cash dividends declared-common ($1.19 per share)	—	—	(2,528)	—	(2,528)
Balance at December 31, 2010	$ 2,124	$ 10,417	$ 59,999	$ 196	$ 72,736

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2010	2009	2008
		(In thousands)	
Cash flows from operating activities:			
Net income	$ 10,228	$ 8,045	$ 6,285
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,300	1,700	805
Net gain on sales of loans	—	(454)	—
Amortization of securities, net	779	822	108
Amortization of deferred loan origination costs, net	182	150	127
Share-based compensation expense	5	—	2
Excess tax benefits from share-based compensation arrangements	—	(12)	(14)
Depreciation and amortization of premises and equipment	443	480	487
Increase in Bank-owned life insurance	(459)	(458)	(464)
Deferred income tax benefit	(674)	(459)	(474)
Net (gain)loss on sales and write-downs of foreclosed assets	(74)	166	7
Changes in operating assets and liabilities:			
Prepaid FDIC assessment	935	(3,409)	—
Accrued interest receivable and other assets	348	(263)	(546)
Accrued interest payable and other liabilities	601	291	(170)
Net cash provided by operating activities	13,614	6,599	6,153
Cash flows from investing activities:			
Activity in available-for-sale securities:			
Maturities, prepayments and calls	69,140	41,478	73,572
Purchases	(69,017)	(51,775)	(82,249)
Activity in certificates of deposit:			
Maturities	7,377	9,632	4,729
Purchases	(8,156)	(9,134)	(12,682)
Increase in Federal Home Loan Bank stock	—	—	(903)
Loans originated, net of payments received	(83,101)	(103,274)	(54,973)
Proceeds from sales of loans	—	25,757	—
Proceeds from sales of foreclosed assets	6,651	2,063	694
Additions to premises and equipment	(2,994)	(282)	(1,064)
Net cash used in investing activities	(80,100)	(85,535)	(72,876)

(continued)

See accompanying notes to consolidated financial statements.

(concluded)

	Years Ended December 31,		
	2010	2009	2008
		(In thousands)	
Cash flows from financing activities:			
Increase in deposits	$ 98,873	$ 105,753	$ 84,059
Increase in mortgagors' escrow accounts	376	217	140
Proceeds from stock options exercised	—	38	61
Cash dividends paid on common stock	(2,443)	(2,272)	(2,163)
Excess tax benefits from share-based compensation arrangements	—	12	14
Net (repayments of) proceeds from borrowings with maturities of less than three months	—	(25,000)	25,000
Proceeds from Federal Home Loan Bank advances with maturities of three months or more	47,000	135,000	125,000
Repayments of Federal Home Loan Bank advances with maturities of three months or more	(62,056)	(102,358)	(178,744)
Repayment of mortgage payable	(37)	(35)	(31)
Net cash provided by financing activities	81,713	111,355	53,336
Net change in cash and cash equivalents	15,227	32,419	(13,387)
Cash and cash equivalents at beginning of year	52,637	20,218	33,605
Cash and cash equivalents at end of year	$ 67,864	$ 52,637	$ 20,218
Supplementary information:			
Interest paid on deposit accounts	$ 8,141	$ 10,327	$ 12,087
Interest paid on borrowed funds	7,079	7,250	10,196
Income taxes paid	7,714	5,648	4,263
Non-cash activities:			
Real estate acquired through foreclosure	$ 6,951	$ 5,134	$ 701
Note payable for purchase of premises	—	—	1,250

See accompanying notes to consolidated financial statements.

Years Ended December 31, 2010, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The consolidated financial statements include the accounts of Hingham Institution for Savings ("Bank") and its wholly-owned subsidiaries, Hingham Securities Corporation II and Hingham Unpledged Securities Corporation, which hold title to certain securities available for sale, and Dunbar-Walnut, LLC which holds certain foreclosed properties. All intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is susceptible to significant change in the near term relates to the determination of the allowance for loan losses and the valuation of deferred tax assets.

Business and operating segments

The Bank provides a variety of financial services to individuals and small businesses through its nine offices in Boston and southeastern Massachusetts. Its primary deposit products are savings, checking, and term certificate accounts, and its primary lending products are residential and commercial mortgage loans.

Management evaluates the Bank’s performance and allocates resources based on a single segment concept. Accordingly, there are no separately identified operating segments for which discrete financial information is available. The Bank does not derive revenues from, or have assets located in foreign countries, nor does it derive revenues from any single customer that represents 10% or more of the Bank’s total revenues.

Fair value hierarchy

The Bank groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value, as follows:

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using unobservable inputs to pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Transfers between levels are recognized at the end of a reporting period, if applicable.

Reclassification

Certain amounts in the 2009 and 2008 consolidated financial statements have been reclassified to conform to the 2010 presentation.

Cash and cash equivalents

Cash and cash equivalents include amounts due from banks and short-term investments which mature within ninety days and are carried at cost. At December 31, 2010, the Bank had a concentration of cash on deposit at the Federal Reserve Bank amounting to $62.5 million.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Certificates of deposit

Certificates of deposit are purchased from FDIC-insured depository institutions in amounts not to exceed $250,000 per institution, including accrued interest, and have original maturities greater than ninety days. Certificates of deposit are carried at cost.

Securities available for sale

Securities are classified as available for sale and recorded at fair value, with unrealized gains and losses, after tax effects, excluded from earnings and reported in accumulated other comprehensive income (loss) as a separate component of stockholders' equity.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on disposition of securities are recorded on the trade date and are determined using the specific identification method.

Each reporting period, the Bank evaluates all securities with a decline in fair value below its amortized cost to determine whether or not the impairment is deemed to be other than temporary ("OTTI").

Marketable equity securities are evaluated for OTTI based on the severity and duration of the impairment and, if deemed to be other than temporary, the declines in fair value are reflected in the earnings as realized losses. For debt securities, OTTI is required to be recognized (1) if the Bank intends to sell the security; (2) if it is "more likely than not" that the Bank will be required to sell the security before recovery of the amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For all impaired debt securities that the Bank intends to sell, or more likely than not will be required to sell, the full amount of the depreciation is recognized as OTTI through earnings. Credit-related OTTI for all other impaired debt securities is recognized through earnings. Non-credit related OTTI for such debt securities is recognized in other comprehensive income, net of applicable taxes.

Federal Home Loan Bank stock

The Bank, as a member of the Federal Home Loan Bank ("FHLB") system, is required to maintain an investment in capital stock of the FHLB. Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. At its discretion, the FHLB may declare dividends on the stock. The Bank reviews for impairment based on the ultimate recoverability of the cost basis in the FHLB stock. As of December 31, 2010, no impairment has been recognized.

Loans

The Bank grants mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans in the southeastern Massachusetts area. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate, construction, and general economic conditions.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and net deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on mortgage and commercial loans is discontinued at the time a loan is 90 days past due unless the credit is well-secured and in process of collection. Personal loans are typically charged off no later than becoming 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for loan losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general and allocated loss components, as further discussed below.

General component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: residential real estate, commercial real estate, construction, commercial, home equity (equity lines of credit and second mortgages) and consumer (personal installment and revolving credit). Management uses a rolling average of historical losses based on a time frame (currently two years) appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; and national and local economic trends and conditions. There were no changes in the Bank's policies or methodology pertaining to the general component of the allowance for loan losses during 2010.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate – The Bank generally does not originate loans with a loan-to-value ratio greater than 80 percent (without private mortgage insurance) and does not grant sub-prime loans. All loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Commercial real estate – Loans in this segment are primarily secured by income-producing properties throughout Massachusetts. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates which, in turn, will have an effect on the credit quality in this segment. Management obtains rent rolls annually and continually monitors the cash flows of these loans.

Construction – Loans in this segment include both owner-occupied and speculative real estate development loans for which payment is derived from sale of the property. Credit risk is affected by cost overruns, time to sell at an adequate price, the overall health of the economy and market conditions.

Commercial – Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Home equity – Loans in this segment are generally collateralized by residential real estate and repayment is dependent on the credit quality of the individual borrower. The Bank generally does not originate loans with combined loan-to-values greater than 70%.

Consumer – Loans in this segment are generally unsecured and repayment is dependent on the credit quality of the individual borrower.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allocated component

The allocated component relates to loans that are classified as impaired. Impairment is measured on a loan by loan basis for residential, commercial, commercial real estate and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of that loan.

A loan is considered impaired when, based on current information and events, it is probable that a creditor will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans are generally maintained on a nonaccrual basis. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. Substantially all of the Bank's loans which are identified as impaired are measured by the fair value of existing collateral. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

The Bank periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). All TDRs are initially classified as impaired.

Premises and equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation and amortization computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured. It is general practice to charge the cost of maintenance and repairs to earnings when incurred; major expenditures for betterments are capitalized and depreciated.

Bank-owned life insurance

Bank-owned life insurance policies are reflected on the consolidated balance sheet at cash surrender value. Changes in cash surrender value are reflected in other income on the consolidated statement of income and are not subject to income taxes.

Foreclosed assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less cost to sell, at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations, changes in the valuation allowance and any direct write-downs are included in foreclosure expenses.

Transfers of Financial Assets

Transfers of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Effective January 1, 2010, the Bank adopted accounting guidance pertaining to transfers of financial assets. During the normal course of business, the Bank may transfer a portion of a financial asset; for example, a participation loan or the government-guaranteed portion of a loan. In order to be eligible for sales treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties, and no loan holder has the right to pledge or exchange the entire loan.

Income taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. A valuation allowance is established against deferred tax assets when, based upon the available evidence including historical and projected taxable income, it is more likely than not that some or all of the deferred tax assets will not be realized. The Bank does not have any uncertain tax positions at December 31, 2010 which require accrual or disclosure. The Bank records interest and penalties as part of income tax expense. No interest or penalties were recorded for the years ended December 31, 2010, 2009 and 2008.

Stock compensation plans

The Bank has two fixed stock option plans as more fully described in Note 12.

The Bank measures and recognizes compensation cost relating to share-based payment transactions based on the grant-date fair value of the equity instruments issued. Share-based compensation is recognized over the period the employee is required to provide services for the award. The Bank uses the Black-Scholes option-pricing model to determine the fair value of stock options granted.

Earnings per common share

Basic earnings per common share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Bank relate solely to outstanding stock options and are determined using the treasury stock method.

Earnings per common share have been computed based on the following:

	Years Ended December 31,		
	2010	2009	2008
	(In Thousands)		
Average number of common shares outstanding used to calculate basic earnings per share	2,124	2,124	2,121
Effect of dilutive options	1	—	1
Average number of common shares outstanding used to calculate diluted earnings per common share	2,125	2,124	2,122

Options for 3,000 shares were not included in the computation of diluted earnings per share because to do so would have been antidilutive for the year ended December 31, 2009. There were no anti-dilutive shares for the year ended December 31, 2010.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Comprehensive income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the stockholders' equity section of the consolidated balance sheet, such items,along with net income, are components of comprehensive income.

The components of other comprehensive income, and related tax effects, are as follows:

	Years Ended December 31,		
	2010	2009	2008
		(In Thousands)	
Net unrealized holding gains (losses) on available-for-sale securities	$ (401)	$ (481)	$ 1,379
Tax effect	139	169	(481)
Net-of-tax amount	$ (262)	$ (312)	$ 898

At December 31, 2010 and 2009, accumulated other comprehensive income relates to unrealized gains on available-for-sale securities of $301,000 and $702,000, respectively, net of tax effects of $105,000 and $244,000, respectively.

Marketing costs

Marketing costs are expensed as incurred.

Recent accounting pronouncements

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures about Fair Value Measurements. This Update requires new disclosures and clarifies existing disclosures regarding recurring and nonrecurring fair value measurements to provide increased transparency to users of the financial statements. The new disclosures and clarification of existing disclosures are effective for interim and annual periods beginning after December 15, 2009; except for the disclosures pertaining to the roll forward of activity for Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Management adopted this statement, except for the roll forward of activity for Level 3 fair value measurements, as of January 1, 2010, and this adoption did not have a material impact on the consolidated financial statements.

In July 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-20, Receivables (Topic 310), Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This Update requires an entity to provide disclosures that facilitate financial statement users' evaluation of (1) the nature of credit risk inherent in the entity's loan portfolio, (2) how that risk is analyzed and assessed in arriving at the allowance for loan and lease losses, and (3) the changes and reasons for those changes in the allowance for loan and lease losses. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The Bank has provided the disclosures required as of December 31, 2010 in Note 4.

2. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2010 and 2009, cash and due from banks included $685,000 and $688,000, respectively, to satisfy such reserve requirements.

3. SECURITIES AVAILABLE FOR SALE

The amortized cost and estimated fair value of securities available for sale, with gross unrealized gains and losses, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
December 31, 2010				
Debt securities:				
Government-sponsored enterprises –FHLMC	$ 16,775	$ 34	$ (3)	$ 16,806
Government-sponsored enterprises – FNMA	32,307	82	(24)	32,365
Government-sponsored enterprises – Other	42,452	176	(11)	42,617
Residential mortgage-backed – FHLMC	97	2	—	99
Residential mortgage-backed – FNMA	139	1	—	140
Total debt securities	91,770	295	(38)	92,027
Equity securities	3,000	44	—	3,044
Total securities available for sale	$ 94,770	$ 339	$ (38)	$ 95,071

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
December 31, 2009				
Debt securities:				
Government-sponsored enterprises –FHLMC	$ 22,068	$ 184	$ —	$ 22,252
Government-sponsored enterprises – FNMA	12,383	56	(4)	12,435
Government-sponsored enterprises – Other	53,530	435	(58)	53,907
Residential mortgage-backed – FHLMC	2,033	23	(1)	2,055
Residential mortgage-backed – FNMA	2,658	54	—	2,712
Total debt securities	92,672	752	(63)	93,361
Equity securities	3,000	13	—	3,013
Total securities available for sale	$ 95,672	$ 765	$ (63)	$ 96,374

At December 31, 2010 and 2009, debt securities with a fair value of $92,027,000 and $93,361,000, respectively, were pledged to secure Federal Home Loan Bank advances. See Note 8.

3. SECURITIES AVAILABLE FOR SALE (concluded)

The amortized cost and estimated fair value of debt securities by contractual maturity at December 31, 2010 are shown below. Expected maturities will differ from contractual maturities because of prepayments and scheduled payments on mortgage-backed securities. Further, certain obligors have the right to call bonds and obligations without prepayment penalties.

	Amortized Cost	Fair Value
	(In Thousands)	
Bonds and obligations:		
Within 1 year	$ 28,888	$ 29,016
Over 1 year to 5 years	62,646	62,772
	91,534	91,788
Residential mortgage-backed securities:		
Over 5 years to 10 years	135	136
Over 10 years	101	103
	236	239
Total debt securities	$ 91,770	$ 92,027

Information pertaining to securities with gross unrealized losses at December 31, 2010 and 2009, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Values	Gross Unrealized Losses	Fair Values
	(In Thousands)			
December 31, 2010				
Debt Securities:				
Government-sponsored enterprises	$ 38	$ 18,198	$ —	$ —

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Values	Gross Unrealized Losses	Fair Values
	(In Thousands)			
December 31, 2009				
Debt Securities:				
Government-sponsored enterprises	$ 62	$ 15,058	$ —	$ —
Residential mortgage-backed – FHLMC	—	—	1	84
Total temporarily impaired securities	$ 62	$ 15,058	$ 1	$ 84

At December 31, 2010, eleven debt securities have unrealized losses with aggregate depreciation of less than 1% from the Bank's amortized cost basis. These unrealized losses relate to debt securities secured by Government-sponsored enterprises and result from changes in the bond markets since their purchase. Because the decline in market value is attributable to changes in interest rates and not the credit quality, and because the Bank does not intend to sell the securities and it is more likely than not that the Bank will not be required to sell the securities before recovery of their amortized cost bases, which may be maturity, the Bank does not consider these securities to be other-than-temporarily impaired at December 31, 2010.

4. LOANS

A summary of the balances of loans follows:

	December 31, 2010	December 31, 2009
	(In Thousands)	
Mortgage loans:		
Residential	$ 356,176	$ 319,228
Commercial	383,361	348,700
Construction	29,065	23,228
Equity lines of credit	23,688	23,230
Second mortgages	5,660	7,975
Total mortgage loans	797,950	722,361
Other loans:		
Personal installment	464	335
Commercial	298	233
Revolving credit	196	265
Total other loans	958	833
Total loans	798,908	723,194
Allowance for loan losses	(6,905)	(5,737)
Net deferred loan origination costs	907	785
Loans, net	$ 792,910	$ 718,242

The Bank has sold mortgage loans in the secondary mortgage market and has retained the servicing responsibility and receives fees for the services provided. Loans sold and serviced for others amounted to $20,247,000 and $24,898,000 at December 31, 2010 and 2009, respectively. All loans serviced for others were sold without recourse provisions and are not included in the accompanying consolidated balance sheets. Mortgages servicing rights were recognized at the time of sale and are being amortized over the effective life of the loans serviced. The Bank did not sell any loans in 2010.

The Bank has transferred a portion of its originated commercial real estate loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in the Bank's accompanying consolidated balance sheets. The Bank and participating lenders share ratably in any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. The Bank continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrowers, remits payments (net of servicing fees) to participating lenders and disburses required escrow funds to relevant parties. At December 31, 2010 and 2009, the Bank was servicing loans for participants aggregating $5,482,000 and $2,555,000, respectively.

An analysis of the allowance for loan losses follows:

	December 31, 2010	December 31, 2009	December 31, 2008
		(In Thousands)	
Balance at beginning of year	$ 5,737	$ 4,530	$ 3,925
Provision for loan losses	1,300	1,700	805
Loans charged off	(133)	(627)	(200)
Recoveries of loans previously charged off	1	134	—
Balance at end of year	$ 6,905	$ 5,737	$ 4,530

4. LOANS (continued)

Further information pertaining to the allowance for loan losses at December 31, 2010 follows:

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity	Commercial	Consumer	Total
				(In Thousands)			
Amount of allowance for loan losses for loans deemed to be impaired	$ 68	$ 77	$ —	$ —	$ —	$ —	$ 145
Amount of allowance for loan losses for loans not deemed to be impaired	1,973	4,080	581	114	3	9	6,760
Loans deemed to be impaired as of December 31, 2010	2,117	3,527	—	97	—	1	5,742
Loans not deemed to be impaired as of December 31, 2010	354,059	379,834	29,065	29,251	298	659	793,166

The following is a summary of past due and non-accrual loans at December 31, 2010:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans on Non-accrual
			(In Thousands)		
Mortgage loans:					
Residential real estate	$ 4,165	$ 1,077	$ 1,099	$ 6,341	$ 2,117
Commercial real estate	4,227	1,461	1,696	7,384	3,527
Home equity	577	—	97	674	97
Consumer	75	—	1	76	1
Total loans	$ 9,044	$ 2,538	$ 2,893	$ 14,475	$ 5,742

At December 31, 2010, there were no loans past due 90 days or more and still accruing interest.

The following is a summary of impaired loans at December 31, 2010:

	December 31, 2010		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
		(In Thousands)	
Impaired loans without a valuation allowance:			
Residential real estate	$ 1,030	$ 1,030	$ —
Commercial real estate	3,020	3,020	—
Home equity	97	97	—
Consumer	1	1	—
Total	4,148	4,148	—
Impaired loans with a valuation allowance:			
Residential real estate	1,019	1,087	68
Commercial real estate	430	507	77
Total	1,449	1,594	145
Total impaired loans	$ 5,597	$ 5,742	$ 145

4. LOANS (continued)

The following is a summary of information pertaining to impaired and non-accrual loans at December 31, 2009:

	December 31, 2009 (In Thousands)
Impaired loans without a valuation allowance	$ 8,521
Impaired loans with a valuation allowance	868
Total impaired loans	$ 9,389
Valuation allowance related to impaired loans	$ 125
Non-accrual loans (including impaired loans)	$ 9,400
Loans past due 90 days or more and still accruing	$ —

	December 31,		
	2010	2009 (In Thousands)	2008
Average investment in impaired loans	$ 7,488	$ 10,309	$ 5,735
Interest income recognized on impaired loans	$ 364	$ 526	127
Interest income recognized on a cash basis on impaired loans	$ 364	$ 526	$ 127

No additional funds are committed to be advanced in connection with impaired loans.

Credit Quality Information

The Bank uses a seven grade internal rating system for commercial real estate, construction and commercial loans as follows:

Loans rated 1-3B: Loans in this category are considered “pass” rated with low to average risk.

Loans rated 4: Loans in this category are considered “special mention.” These loans are currently protected, but exhibit conditions that have the potential for weakness. The borrower may be affected by unfavorable economic, market or other external conditions that may affect their ability to repay the debt. These may also include credits where there is deterioration of the collateral or have deficiencies which may affect our ability to collect on the collateral. This rating is consistent with the “Other Assets Especially Mentioned” category used by the FDIC regulatory agency.

Loans rated 5: Loans in this category are considered “substandard.” Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Bank will sustain some loss if the weakness is not corrected.

Loans rated 6: Loans in this category are considered “doubtful.” Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

Loans rated 7: Loans in this category are considered uncollectible (“loss”) and of such little value that their continuance as loans is not warranted.

4. LOANS (concluded)

Loans are assigned an initial grade at the origination of the loan. After origination, the Bank has a quality control program performed by an independent third-party. On a quarterly basis, all commercial and residential loan relationships with individual loans $500,000 or more are assigned a risk rating. An in-depth review is performed on all relationships totaling $850,000 or greater along with loans on the Bank's Watchlist. Watchlist loans are those loans that are more than two payments past due at the end of the quarter, loans rated four or higher in a previous review, or loans past contractual maturity. Results of the review are reported to the Bank's Audit Committee on a quarterly basis and become the mechanism for monitoring the overall credit quality of the portfolio.

The following table presents the Bank's loans by risk ratings as of December 31, 2010:

Rating	Residential Real Estate	Commercial Real Estate	Construction	Commercial
		(In Thousands)		
1- 3B	$ 354,074	$ 376,648	$ 29,065	$ 298
4	975	1,877	—	—
5	1,127	4,836	—	—
6	—	—	—	—

5. FORECLOSED ASSETS

A summary of foreclosed assets is as follows:

	December 31, 2010	December 31, 2009
	(In Thousands)	
Commercial property	$ 2,790	$ 2,790
Residential property	769	395
	$ 3,559	$ 3,185

Expenses applicable to foreclosed assets include the following:

	December 31, 2010	2009	2008
		(In Thousands)	
Net (gain) loss on sales of real estate	$ (120)	$ 66	$ 7
Write-down of real estate	46	100	—
Operating expenses, net of rental income	800	512	195
	$ 726	$ 678	$ 202

6. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation and amortization of premises and equipment follows:

	December 31, 2010	December 31, 2009	Estimated Useful Life
	(In Thousands)		
Premises:			
Land	$ 1,608	$ 1,608	N/A
Buildings	5,605	5,569	3-65 years
Leasehold improvements	329	329	10 years
Equipment	3,401	3,367	3-25 years
Construction in progress (see Note 10)	2,962	38	N/A
	13,905	10,911	
Less accumulated depreciation and amortization	(5,920)	(5,477)	
	$ 7,985	$ 5,434	

Depreciation and amortization expense for the years ended December 31, 2010, 2009 and 2008 amounted to $443,000, $480,000 and $487,000, respectively.

At December 31, 2010, construction in progress represented costs incurred to date in connection with renovations to the main office in Hingham, MA.

7. DEPOSITS

A summary of deposit balances, by type, is as follows:

	December 31, 2010	December 31, 2009
	(In Thousands)	
Regular	$ 57,848	$ 48,273
Money market	239,909	186,139
NOW	25,889	27,104
Demand	53,539	48,994
Total non-certificate accounts	377,185	310,510
Term certificates less than $100,000	179,448	169,829
Term certificates of $100,000 or more	173,327	150,748
Total certificate accounts	352,775	320,577
Total deposits	$ 729,960	$ 631,087

7. DEPOSITS (concluded)

The maturity distribution of term certificates is as follows:

Maturing During the Year Ending December 31,	December 31, 2010 Amount	2010 Weighted Average Rate	2009 Amount	2009 Weighted Average Rate
	(Dollars in Thousands)			
2010	$ —	— %	$ 270,351	1.86 %
2011	292,937	1.42	34,117	2.64
2012	47,386	1.83	9,792	2.85
2013	7,197	2.67	3,816	3.29
2014	2,751	2.89	2,501	2.97
2015	2,504	2.46	—	—
	$ 352,775	1.52 %	$ 320,577	2.00 %

A summary of interest expense on deposits is as follows:

	Years Ended December 31, 2010	2009	2008
	(In Thousands)		
Regular	$ 133	$ 117	$ 104
Money market	2,240	2,132	1,749
NOW	27	27	24
Term certificates	5,725	8,058	10,200
	$ 8,125	$ 10,334	$ 12,077

8. BORROWED FUNDS

Federal Home Loan Bank Advances

A summary of advances from the Federal Home Loan Bank of Boston follows:

Maturing During the Year Ending December 31,	December 31, 2010 Amount	2010 Weighted Average Rate	2009 Amount	2009 Weighted Average Rate
	(Dollars in Thousands)			
2010	$ —	— %	$ 51,953	3.52 %
2011	66,500	2.39	46,500	3.26
2012	14,000	2.19	14,000	2.19
2013	18,000	2.69	15,000	2.83
2014	63,000	3.13	59,000	3.17
2015	10,000	2.55	—	—
Thereafter (1)	36,080	4.08	36,183	4.09
	$ 207,580	2.93 %	$ 222,636	3.33 %

(1) At December 31, 2010 and 2009, includes an amortizing advance with a balance of $1,080,000 and $1,183,000, respectively, due in November, 2018, requiring monthly principal and interest of $14,000.

8. BORROWED FUNDS (concluded)

All borrowings from the Federal Home Loan Bank of Boston are secured by a blanket lien on "qualified collateral" defined principally as 75% of the carrying value of first mortgage loans on certain owner-occupied residential property, 50% of the carrying value of first mortgage loans on certain non-owner-occupied residential property, 65% of the carrying value of first mortgage loans on certain multi-family residential property and 50% of the carrying value of loans on certain commercial property. In addition, 90% of the fair value of certain government-sponsored enterprise debt and mortgage-backed securities held in Hingham Securities Corporation II with a fair value of $92,027,000 and $93,361,000 at December 31, 2010 and 2009, respectively, are used as collateral.

Expected maturities may differ from contractual maturities because certain borrowings, aggregating $39.0 million at December 31, 2010, can be called by the FHLB after an initial specified term.

Available Lines of Credit

The Bank has an available line of credit with the FHLB at an interest rate that adjusts daily. Borrowings under this line are limited to $4,633,000 at December 31, 2010. No amounts were drawn on the line of credit as of December 31, 2010 and 2009. Additionally, the Bank has registered with the Federal Reserve Bank to access the discount window. The Bank may access this line by assigning assets as collateral.

Mortgage Payable

The balance represents a loan payable by the Bank for the purchase from an unrelated party of property which was used for a new branch office. The note is secured by the real estate and bears interest at a fixed rate of 6.00%. Principal and interest is payable in 240 monthly installments. As of December 31, 2010, future principal payments amounted to $40,000, $42,000, $45,000, $48,000, $50,000 and $922,000, for the years ending December 31, 2011, 2012, 2013, 2014, 2015 and, thereafter, respectively.

9. INCOME TAXES

Allocation of federal and state income taxes between current and deferred portions is as follows:

	Years Ended December 31,		
	2010	**2009** (In Thousands)	**2008**
Current tax provision:			
Federal	$ 5,854	$ 4,311	$ 3,407
State	1,669	1,239	847
	7,522	5,550	4,254
Deferred tax benefit:			
Federal	(542)	(350)	(408)
State	(132)	(109)	(66)
	(674)	(459)	(474)
	$ 6,848	$ 5,091	$ 3,780

9. INCOME TAXES (continued)

The reasons for the differences between the statutory federal income tax rate and the effective tax rate are summarized as follows:

	Years Ended December 31,		
	2010	2009	2008
		(In Thousands)	
Statutory Rate	35.0 %	34.0 %	34.0 %
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	5.9	5.7	5.1
Bank-owned life insurance	(0.8)	(0.9)	(1.5)
	40.1 %	38.8 %	37.6 %

The components of the net deferred tax asset are as follows:

	December 31,	
	2010	2009
	(In Thousands)	
Deferred tax assets:		
Federal	$ 2,731	$ 2,195
State	772	639
	3,503	2,834
Deferred tax liabilities:		
Federal	(576)	(715)
State	(124)	(129)
	(700)	(844)
Net deferred tax asset	2,803	$ 1,990

The tax effects of each item that give rise to deferred tax assets (liabilities) are as follows:

	December 31,	
	2010	2009
	(In Thousands)	
Allowance for loan losses	$ 2,821	$ 2,291
Fees on loans	(475)	(456)
Net unrealized gain on securities available for sale	(105)	(244)
Non-accrual interest	53	163
Employee benefit plans	460	321
Other	49	(85)
Net deferred tax asset	$ 2,803	$ 1,990

A summary of the change in the net deferred tax asset is as follows:

	Years Ended December 31,		
	2010	2009	2008
		(In Thousands)	
Balance at beginning of year	$ 1,990	$ 1,362	$ 1,369
Deferred tax benefit	674	459	474
Deferred tax effects of net unrealized gain/loss on securities available for sale	139	169	(481)
Balance at end of year	$ 2,803	$ 1,990	$ 1,362

9. INCOME TAXES (continued)

The federal income tax reserve for loan losses at the Bank's base year was $3,780,000. If any portion of the reserve is used for purposes other than to absorb loan losses, approximately 150% of the amount actually used, limited to the amount of the reserve, will be subject to taxation in the year in which used. As the Bank intends to use the reserve only to absorb loan losses, a deferred tax liability of $1,512,000 has not been provided.

The Bank’s income tax returns are subject to review and examination by federal and state taxing authorities. The Bank is currently open to audit under the applicable statutes of limitations by the Internal Revenue Service for the years ended December 31, 2007 through 2009. The years open to examination by state taxing authorities vary by jurisdiction; no years prior to 2007 are open.

10. COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding commitments and contingencies which are not reflected in the consolidated financial statements.

Loan commitments

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include unused lines of credit, commitments to originate loans, and standby letters of credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss in the event of non-performance by the other party to its financial instruments is represented by the contractual amount of these commitments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

At December 31, 2010 and 2009, the following financial instruments were outstanding for which contract amounts represent credit risk:

	December 31,	
	2010	2009
	(In Thousands)	
Unused lines of credit	$ 45,512	$ 43,290
Commitments to originate loans:		
Commercial mortgages	11,550	10,278
Residential mortgages	21,817	10,729
Unadvanced funds on construction loans	8,996	6,204
Standby letters of credit	135	585

Commitments to extend credit are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the borrower. The commitments to originate loans, unadvanced construction funds, and the majority of unused lines of credit are secured by real estate.

Standby letters-of-credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters-of-credit are primarily issued to support public and private borrowing arrangements. All letters of credit issued have expiration dates within five years. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments.

10. COMMITMENTS AND CONTINGENCIES (concluded)

Lease commitments

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2010, pertaining to premises and equipment, future minimum rent commitments under various operating leases are as follows:

Year Ending December 31,	Amount (In Thousands)
2011	$ 178
2012	183
2013	188
2014	171
2015	109
Thereafter	28
Total	$ 857

Lease commitments are based on the initial contract term, or longer when, in the opinion of management, it is more likely than not that the lease will be renewed. Total rent expense for the years ended December 31, 2010, 2009 and 2008 amounted to $178,000, $178,000 and $167,000, respectively.

Construction

In May 2010, the Bank entered into contract to expand the Bank's current facilities on land owned by the Bank at 49 and 55 Main Street, Hingham, MA. Construction started in May 2010 and is expected to be complete in mid-2011 with an anticipated total cost of $3.5 million. As of December 31, 2010, $2.7 million had been paid on the contract.

Employment agreements

The Bank has entered into employment agreements with certain senior executives. The original terms of the agreements are for three or two years and can generally be extended for one-year periods. The agreements generally provide for certain lump sum severance payments under certain circumstances, within a one-year period following a "change in control," as defined in the agreements. Effective December 27, 2007, two of these agreements were amended to provide for certain death benefits, which are being accrued ratably over the employees' remaining service period. For the years ended December 31, 2010, 2009 and 2008, expenses attributable to the agreements amounted to $288,000, $421,000 and $263,000, respectively.

Legal claims

Legal claims arise from time to time in the normal course of business, which, in the opinion of management, will have no material effect on the Bank's consolidated financial statements.

11. MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. FDIC-insured depository institutions are prohibited from paying dividends or making capital distributions that would cause the institution to fail to meet minimum capital requirements or if it is already undercapitalized. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2010 and 2009, that the Bank meets all capital adequacy requirements to which it is subject.

11. MINIMUM REGULATORY CAPITAL REQUIREMENTS (concluded)

As of December 31, 2010, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2010 and 2009 are also presented in the table.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Actions Provisions	
	Amounts	Ratio	Amounts	Ratio	Amounts	Ratio
			(Dollars in Thousands)			
December 31, 2010						
Total Capital to Risk-Weighted Assets	$ 79,465	12.72 %	$ 49,994	8.0 %	$ 62,493	10.0 %
Tier 1 Capital to Risk-Weighted Assets	72,540	11.61	24,997	4.0	37,496	6.0
Tier 1 Capital to Average Assets	72,540	7.18	40,389	4.0	50,487	5.0
December 31, 2009						
Total Capital to Risk-Weighted Assets	$ 70,578	12.33 %	$ 45,788	8.0 %	$ 57,235	10.0 %
Tier 1 Capital to Risk-Weighted Assets	64,835	11.33	22,894	4.0	34,341	6.0
Tier 1 Capital to Average Assets	64,835	7.10	36,544	4.0	45,680	5.0

12. STOCK OPTION PLANS

Under the Bank's 1988 and 1996 stock option plans, options may be granted to officers, other employees, and certain directors as the Stock Option Committee of the Board of Directors may determine. A total of 187,500 shares of common stock were reserved for issuance pursuant to the 1988 plan and a total of 90,000 shares of common stock were reserved for issuance pursuant to the 1996 plan. Both "incentive options" and "non-qualified options" could be granted under the plans. All options under both plans will have an exercise price per share equal to, or in excess of, the fair market value of a share of common stock at the date the option is granted, will have a maximum option term of 10 years and are fully vested immediately upon issuance. At December 31, 2010, there were 7,500 non-qualified shares remaining available for future issuance under the 1996 plan and no shares remaining under the 1988 plan.

Stock option activity is as follows:

	2010		2009		2008	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Shares under option:						
Outstanding at beginning of year	5,000	$ 31.96	7,500	$ 26.31	9,200	$ 23.16
Granted	1,500	36.00	—	—	1,500	30.00
Exercised	—	—	(2,500)	15.00	(3,200)	18.98
Outstanding at end of year	6,500	$ 32.89	5,000	$ 31.96	7,500	$ 26.31
Options exercisable at end of year	6,500	$ 32.89	5,000	$ 31.96	7,500	$ 26.31

As of December 31, 2010, the aggregate intrinsic value of options outstanding amounted to $75,000.

The total intrinsic value of options exercised during the years ended December 31, 2009 and 2008 was $28,000 and $34,000, respectively.

12. STOCK OPTION PLANS (concluded)

Options outstanding consist of the following:

	December 31,			
	2010		2009	
	Shares	Weighted Average Remaining Contractual Life in Years	Shares	Weighted Average Remaining Contractual Life in Years
Option price				
$35.25 ………………………………	2,000	6	2,000	7
30.00 ………………………………	1,500	8	1,500	9
29.54 ………………………………	1,500	1	1,500	2
36.00 ………………………………	1,500	9	—	—
	6,500		5,000	

The fair value of each option grant is estimated on the date of grant using the Black Scholes option-pricing model with the following weighted average assumptions. There were no options granted in 2009.

	2010	2008
Expected dividends	3.1%	3.3%
Expected term	5 years	5 years
Expected volatility	14%	9%
Risk-free interest rate	2.49%	3.06%

The expected volatility is based on historical volatility. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected term is based on historical exercise experience. The dividend yield assumption is based on the Bank's history and expectation of dividend payouts.

The weighted-average grant-date fair value of options granted during the years ended December 31, 2010 and 2008 was $13,000 and $2,000, respectively.

For the years ended December 31, 2010 and 2008, share-based compensation expense applicable to the plan amounted to $5,000 and $2,000 and the recognized tax benefit related to this expense amounted to $2,000 and $1,000, respectively. There was no share-based compensation expense in 2009 as there were no options granted.

13. EMPLOYEE BENEFIT PLANS

401(k) Plan

The Bank has a 401(k) plan whereby each employee, having completed at least three months of continuous service beginning with date of employment, becomes a participant in the plan. Employees may contribute a percentage of their compensation subject to certain limits based on federal tax laws. The Bank contributes 3% of an employee's compensation, regardless of the employee's contribution and makes a matching contribution of $0.50 for each dollar contributed by the employee up to a maximum matching contribution equal to 3% of the employee's yearly compensation. Matching contributions vest to the employee after two years, or at age 59½, if earlier. For the years ended December 31, 2010, 2009 and 2008, expense attributable to the plan amounted to $290,000, $261,000 and $241,000, respectively.

Supplemental Employee Retirement Plans

The Bank has supplemental employee retirement plans which were established in 2002 for the benefit of certain senior executives. In connection with these plans, the Bank purchased life insurance policies amounting to $10,109,000 and contributed them to a Rabbi Trust. The value of these policies is $14,074,000 and $13,615,000 at December 31, 2010 and 2009, respectively. In accordance with the agreements, a secular trust was established for each executive into which the Bank makes annual contributions which become the property of the executive. Expense related to these plans amounted to $604,000, $595,000 and $611,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

14. RELATED PARTY TRANSACTIONS

The Bank has a policy providing that loans (excluding passbook loans) will not be granted to directors, officers and other employees of the Bank. During the years ended December 31, 2010 and 2009, legal fees paid by the Bank to a law firm owned by certain directors of the Bank amounted to $434,000 and $431,000, respectively. Such fees related to representation of the Bank with foreclosure and collection actions, loan closing costs borne by the Bank and certain other routine legal matters. The Bank believes that the foregoing sums have been reasonable in relation to the services provided to the Bank.

15. FAIR VALUES OF ASSETS AND LIABILITIES

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The Bank groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value, as follows:

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using unobservable inputs to pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Transfers between levels are recognized at the end of a reporting period, if applicable.

The following methods and assumptions were used by the Bank in estimating fair value disclosures:

<u>Cash and cash equivalents:</u> The carrying amounts of cash, due from banks, interest-bearing deposits and short-term investments approximate fair values based on the short-term nature of the assets.

<u>Certificates of deposit:</u> Fair values for certificates of deposit are based upon quoted market prices.

<u>Securities available for sale:</u> The securities measured at fair value in Level 1 are based on quoted market prices in an active exchange market and generally include marketable equity securities. Securities measured at fair value in Level 2 are based on pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data. These securities include government-sponsored enterprise obligations, FHLMC and FNMA bonds, corporate bonds and other securities. At December 31, 2010 and 2009, all fair value measurements are obtained from a third-party pricing service and are not adjusted by management.

<u>Federal Home Loan Bank stock:</u> The carrying value of Federal Home Loan Bank stock is deemed to approximate fair value based on the redemption provisions of the Federal Home Loan Bank of Boston.

15. FAIR VALUES OF ASSETS AND LIABILITIES (continued)

Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analysis, using market interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable.

Deposits: The fair values of non-certificate accounts are, by definition, equal to the amount payable on demand at the reporting date which is their carrying amount. Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Federal Home Loan Bank advances: The fair values of the advances are estimated using discounted cash flow analysis based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements.

Mortgage payable: The fair value of the Bank's mortgage payable is estimated using discounted cash flow analysis based on the current incremental borrowing rates in the market for similar types of borrowing arrangements.

Mortgagors' escrow accounts: The carrying amounts of mortgagors' escrow accounts approximate fair value.

Accrued interest: The carrying amounts of accrued interest approximate fair value.

Off-balance-sheet instruments: Fair values for off-balance-sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. At December 31, 2010 and 2009, the fair value of commitments outstanding is not significant since fees charged are not material.

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below. There are no liabilities measured at fair value on a recurring basis.

	December 31, 2010			
	Level 1	Level 2	Level 3	Total Fair Value
	(In Thousands)			
Securities available for sale:				
Government-sponsored enterprises	$ —	$ 91,788	$ —	$ 91,788
Residential mortgage-backed securities	—	239	—	239
Equity securities	3,044	—	—	3,044
Total securities available for sale	$ 3,044	$ 92,027	$ —	$ 95,071

	December 31, 2009			
	Level 1	Level 2	Level 3	Total Fair Value
	(In Thousands)			
Securities available for sale:				
Government-sponsored enterprises	$ —	$ 88,594	$ —	$ 88,594
Residential mortgage-backed securities	—	4,767	—	4,767
Equity securities	3,013	—	—	3,013
Total securities available for sale	$ 3,013	$ 93,361	$ —	$ 96,374

15. FAIR VALUES OF ASSETS AND LIABILITIES (concluded)

Assets Measured at Fair Value on a Non-recurring Basis

The Bank may also be required, from time to time, to measure certain other assets on a non-recurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting, or write-downs of individual assets. The following table summarizes the fair value hierarchy used to determine each adjustment and the carrying value of the related individual assets as of December 31, 2010 and 2009. There are no liabilities measured at fair value on a non-recurring basis at December 31, 2010 or 2009.

	December 31, 2010			Year Ended December 31, 2010
	Level 1	Level 2 (In Thousands)	Level 3	Total Losses (In Thousands)
Impaired loans	$ —	$ —	$ 1,449	$ (20)
Foreclosed assets	—	—	3,061	(46)
	$ —	$ —	$ 4,510	$ (66)

	December 31, 2009			Year Ended December 31, 2009
	Level 1	Level 2 (In Thousands)	Level 3	Total Losses (In Thousands)
Impaired loans	$ —	$ —	$ 743	$ (125)
Foreclosed assets	—	—	2,300	(100)
	$ —	$ —	$ 3,043	$ (225)

Losses applicable to impaired loans and foreclosed assets are estimated using the appraised value of the underlying collateral, discounting factors and other factors. The losses applicable to impaired loans are not recorded directly as an adjustment to current earnings or comprehensive income, but rather as a component in determining the overall adequacy of the allowance for loan losses. Adjustments to the estimated fair value of impaired loans may result in increases or decreases to the provision for loan losses.

Summary of Fair Values of Financial Instruments

The estimated fair values, and related carrying or national amounts, of the Bank's financial instruments are as follows. Certain financial instruments and all nonfinancial instruments are exempt from disclosure requirements. Accordingly, the aggregate fair value amounts presented herein may not necessarily represent the underlying fair value of the Bank.

	December 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial assets:				
Cash and cash equivalents	$ 67,864	$ 67,864	$ 52,637	$ 52,637
Certificates of deposit	13,929	14,006	13,150	13,230
Securities available for sale	95,071	95,071	96,374	96,374
Federal Home Loan Bank stock	13,373	13,373	13,373	13,373
Loans, net	792,910	801,755	718,242	724,591
Accrued interest receivable	2,992	2,992	3,392	3,392
Financial liabilities:				
Deposits	729,960	732,551	631,087	633,803
Federal Home Loan Bank advances	207,580	215,715	222,636	228,320
Mortgage payable	1,147	1,305	1,184	1,355
Mortgagors' escrow accounts	2,344	2,344	1,968	1,968
Accrued interest payable	591	591	714	714

16. SUBSEQUENT EVENTS

On January 19, 2011, the Bank entered into a tentative lease agreement for space in downtown Boston in which the Bank intends to open its tenth branch location. The lease is written under terms generally consistent with other branch leases and is dependent on regulatory approval.

17. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2010 and 2009 are as follows:

	Year Ended December 31, 2010			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In Thousands, Except Per Share Data)			
Interest and dividend income	$ 11,965	$ 11,898	$ 11,502	$ 11,460
Interest expense	3,567	3,724	3,812	3,995
Net interest income	8,398	8,174	7,690	7,465
Provision for loan losses	300	300	300	400
Net interest income, after provision for loan losses	8,098	7,874	7,390	7,065
Other income	463	407	380	377
Operating expenses	3,846	3,693	3,792	3,647
Income before income taxes	4,715	4,588	3,978	3,795
Income tax provision	2,017	1,794	1,557	1,480
Net income	$ 2,698	$ 2,794	$ 2,421	$ 2,315
Earnings per common share:				
Basic (1)	$ 1.27	$ 1.32	$ 1.14	$ 1.09
Diluted (1)	$ 1.27	$ 1.32	$ 1.14	$ 1.09
Cash dividends declared per common share	$ 0.49 (2)	$ 0.24	$ 0.23	$ 0.23

	Year Ended December 31, 2009			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In Thousands, Except Per Share Data)			
Interest and dividend income	$ 11,382	$ 11,461	$ 11,089	$ 10,866
Interest expense	4,139	4,312	4,391	4,757
Net interest income	7,243	7,149	6,698	6,109
Provision for loan losses	300	400	450	550
Net interest income, after provision for loan losses	6,943	6,749	6,248	5,559
Other income	543	382	706	377
Operating expenses	3,699	3,581	3,691	3,400
Income before income taxes	3,787	3,550	3,263	2,536
Income tax provision	1,520	1,367	1,240	964
Net income	$ 2,267	$ 2,183	$ 2,023	$ 1,572
Earnings per common share:				
Basic (1)	$ 1.07	$ 1.03	$ 0.95	$ 0.74
Diluted (1)	$ 1.07	$ 1.03	$ 0.95	$ 0.74
Cash dividends declared per common share	$ 0.45 (3)	$ 0.22	$ 0.21	$ 0.21

(1) The total of the four quarters' earnings per share does not agree to the year-to-date earnings per share due to rounding.
(2) Includes a special dividend of $0.25 per common share declared on November 23, 2010.
(3) Includes a special dividend of $0.23 per common share declared on November 19, 2009.

Stock Performance Graph

The chart which appears below sets forth the percentage change, on an annual basis, in the cumulative total return on the Bank's Common Stock since December 31, 2005 through December 31, 2010. For comparative purposes, changes in the cumulative total return on the three indices of publicly traded stocks (the "Indices") are also set forth on the chart.

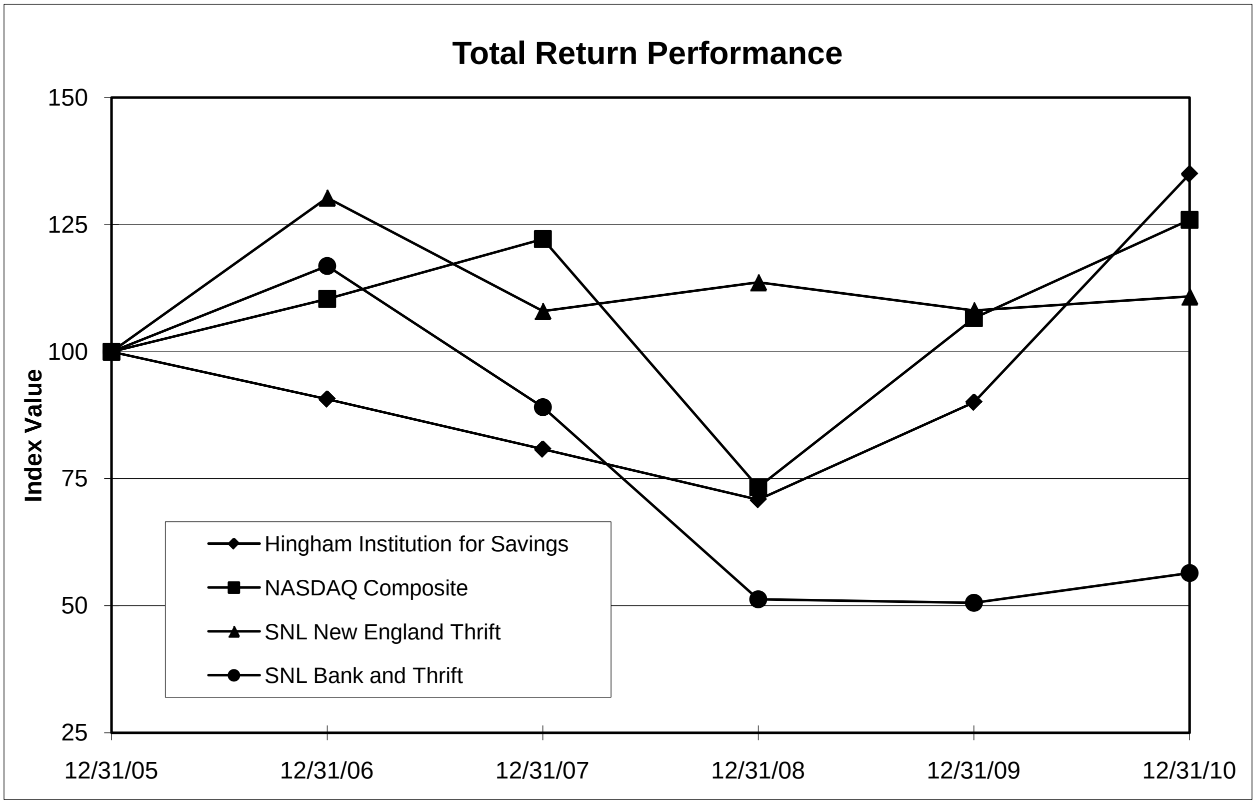
The NASDAQ Composite Index reflects the total return of a group of stocks in a cross section of industries. Many of these stocks have substantially larger market capitalizations than the Bank. The SNL Bank and Thrift Index tracks a national group of publicly traded bank and thrift institutions.

The final Index, SNL New England Thrift Index, tracks a peer group of all publicly traded thrift institutions located in New England. SNL Securities is a research and publishing firm specializing in the collection and dissemination of data on the banking, thrift, and financial services industries.

The chart begins with an equal base value of $100 for the Bank's stock and for each of the Indices on December 31, 2005 and reflects year-end closing prices and dividends paid thereafter by the Bank and by the companies which comprise the Indices. The chart assumes full reinvestment of such dividends.

Information about the Indices has been obtained from sources believed to be reliable, but neither the accuracy nor the completeness of such information is guaranteed by the Bank.

Hingham Institution for Savings



	Period Ending					
Index	**12/31/05**	**12/31/06**	**12/31/07**	**12/31/08**	**12/31/09**	**12/31/10**
Hingham Institution for Savings	100.00	90.67	80.81	70.87	90.05	134.97
NASDAQ Composite	100.00	110.39	122.15	73.32	106.57	125.91
SNL New England Thrift Index	100.00	130.32	107.99	113.65	108.14	110.86
SNL Bank and Thrift Index	100.00	116.85	89.10	51.24	50.55	56.44

Hingham Institution for Savings
55 Main Street
Hingham, MA 02043
(781) 749-2200

President and Chief
Executive Officer
Robert H. Gaughen, Jr.

Investor Inquiries
William M. Donovan, Jr.
Vice President –Administration

TransferAgent and Registrar
BNY Mellon Shareowner Services
480Washington Boulevard
Jersey City, NJ 07310
(800) 288-9541

Online Registered Shareholder Inquiries
www.bnymellon.com/shareowner/isd

Stockholder Inquiries
BNY Mellon Shareowner Services
For Hingham Institution for Savings
P.O. Box 358015
Pittsburgh, PA 15252-8015
(800) 288-9541

Independent Registered Public Accounting Firm
Wolf & Company, P.C.
99 High Street
Boston, MA 02110

Special Counsel
WilmerHale
60 State Street
Boston, MA 02109

Form 10-K
A copy of the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as filed with the Federal Deposit Insurance Corporation, may be obtained without charge by any stockholder of the Bank upon written request addressed to the Investor Relations Department

Stock Data
Hingham Institution for Savings' common shares are listed and traded on The NASDAQ Stock Market under the symbol HIFS.

As of December 31, 2010, there were approximately 381 stockholders of record, holding 864,972 outstanding shares of common stock. These shares do not include the number of persons who hold their shares in nominee or street name through various brokerage firms.

The following table presents the quarterly high and low bid prices for the Bank's common stock reported by NASDAQ.

	High	Low
2009		
First Quarter	$ 29.85	$ 22.10
Second Quarter	30.05	27.00
Third Quarter	33.95	28.12
Fourth Quarter	32.40	28.31
2010		
First Quarter	$ 34.70	$ 30.32
Second Quarter	38.05	33.86
Third Quarter	41.50	35.02
Fourth Quarter	45.00	37.08

The closing sale price of the Bank's common stock at December 31, 2010 was $44.50 per share.

Branch Offices

BOSTON – South End
540 Tremont Street
Boston, MA 02116

COHASSET
13 Elm Street
Cohasset, MA 02025

HINGHAM
Main Office
55 Main Street
Hingham, MA 02043

Loan Center
49 Main Street
Hingham, MA 02043

Drive-Up
71 Main Street
Hingham, MA 02043

SOUTH HINGHAM
37 Whiting Street
Hingham, MA 02043

LINDEN PONDS
300 Linden Ponds Way
Hingham, MA 02043
(serving Linden Ponds residents and employees)

HULL
401 Nantasket Avenue
Hull, MA 02045

NORWELL/HANOVER
5 Assinippi Avenue
Hanover, MA 02339

SCITUATE
400 Gannett Road
North Scituate, MA 02066

SOUTH WEYMOUTH
32 Pleasant Street
South Weymouth, MA 02190

HINGHAM INSTITUTION FOR SAVINGS
ESTABLISHED 1834

55 Main Street, Hingham, MA 02043
Tel: 781-749-2200 Fax: 781-740-4889
www.hinghamsavings.com